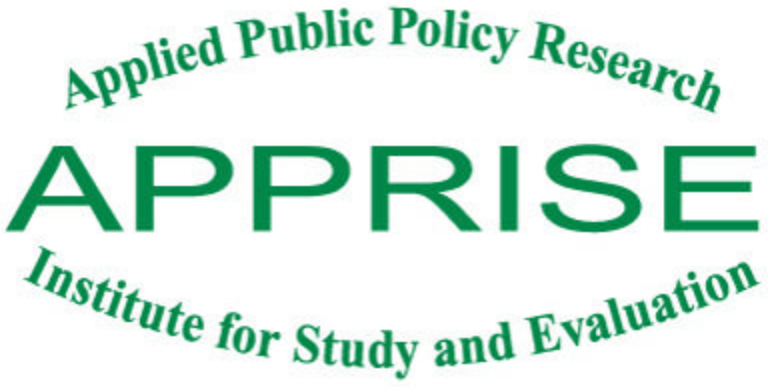

Impact Evaluation and Concurrent Process Evaluation of the New Jersey Universal Service Fund

Final Report

Prepared for the New Jersey Board of Public Utilities

April 2006

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Executive Summary

The New Jersey Board of Public Utilities (BPU) implemented the New Jersey Universal Service Fund (USF) in October 2003. The goal of the USF program is to make electric and gas service affordable to low-income households in New Jersey. The BPU has contracted with APPRISE to conduct an evaluation of the USF program. The purposes of the evaluation are to assess whether the program has been successful in meeting its affordability goal and to determine what changes, if any, are needed to improve the program's performance.

Introduction

In 1999, the Electric Discount and Energy Competition Act (EDECA) authorized the BPU to establish a USF program. An interim program furnished benefits to nearly 100,000 low-income customers in 2002. The current USF program was established by BPU order on April 30, 2003.

In October 2003, households that had received either HEA or Lifeline during the 2002-2003 program year were screened for USF program eligibility. Additional HEA recipients were screened for USF benefits in April 2004 and September 2004. Starting in November 2004, households were able to directly apply for USF benefits through a joint USF/HEA application. In addition, households that apply for HEA as part of their annual Food Stamp recertification procedures continue to be screened for USF eligibility. USF benefits are granted for a twelve-month period. At the end of the twelve months, a customer must reenroll in the program to continue to receive USF benefits.[1] By November 2005, 176,707 different low-income households had received USF benefits.

The Fresh Start program was implemented in April 2004. Any USF customer with an overdue balance of $60 or more was automatically enrolled. After that time, any customers who were qualified for USF and had an overdue balance of $60 or more at the time of enrollment were automatically enrolled in the Fresh Start program. The Fresh Start program gives the USF participant the opportunity to retire preprogram overdue balances by paying current bills for one year. A customer is only allowed to participate in the Fresh Start program one time.

The USF program is implemented through a partnership among state agencies, the state's seven investor-owned utilities, and local community-based agencies. The partners and their responsibilities are:

[1] The one-year enrollment period has been extended for certain groups of customers. HEA recipients enrolled in October 2003 had their benefits extended to April 2005 so that they could take advantage of the Fresh Start program. USF recipients enrolled in October 2003 had their benefits further extended to September 2005 because of a backlog in processing USF/HEA applications at some local agencies. USF recipients enrolled in April 2004 also had their benefits extended to September 2005 because of the backlog. Lifeline recipients enrolled in the program in October 2003 had their benefits extended to November 2006 while the BPU considers alternatives for enrolling Lifeline recipients in the USF program.

- BPU - The BPU has fiscal responsibility for the program.
- DHS - The program administrator is the New Jersey Department of Human Services.
    - OIT - The NJ Office of Information Technology (OIT) supports DHS through the development and operation of the USF/HEA computer system.
    - DCA - The NJ Department of Community Affairs (DCA) supports DHS through its management of the community-based agencies that serve as USF/HEA intake sites.
- Utilities – The seven investor-owned utilities furnish DHS with information to identify customers and calculate benefits, credit customer accounts with USF and Fresh Start benefits, and furnish reports to the BPU on the status of USF customers.
- Community-Based Agencies – Local agencies contract with DCA to conduct HEA/USF outreach and to process HEA/USF applications.

The APPRISE evaluation team has contracted with the BPU to furnish information regarding the benefits and costs of the USF program, and to identify alternatives for program design and operations that can increase program benefits and/or cost-effectiveness. The evaluation team was tasked to address the following topics.

- Program Targeting
- Program Accessibility
- Payment Compliance
- Program Retention
- Client Program Impacts
- Utility Program Impacts
- Agency Program Impacts
- Program Linkages and Efficiency
- Summary of Program Benefits and Costs

The program evaluation research consisted of Administrative Interviews, USF Customer Interviews, OIT Database Analysis, Utility Data Analysis, and Financial Data Analysis. All of the evaluation findings are presented in this report. A companion report, *NJ USF Program History and Operations,* was prepared to furnish detailed information about the USF program and is referenced throughout this report.

USF Program Design

Households are eligible for the USF program if they meet the following criteria.

- Utility Customer – Receive electric or natural gas service from one of the seven BPU-regulated utilities.

- Income – Have household income at or below 175 percent of poverty.

- Energy Burden – Have an electric or natural gas bill that exceeds 3 percent of income, or have an electric heat bill that exceeds 6 percent of income.

Households are screened for USF program eligibility if they enroll in one of the following ways.

- USF/HEA Application – They complete a USF/HEA application and send it or bring it to a USF/HEA intake agency.

- Food Stamp Application – They complete a Food Stamp application (or recertification) at the county social services office.

The USF benefit screening process includes the following steps.

- HEA Benefit – Qualifying households are assigned a HEA benefit based on the HEA benefit matrix.

- Lifeline Benefit – Households are screened to determine whether they received a Lifeline benefit in the previous year.

- Electric Energy Burden / Gas Energy Burden – OIT requests information from the household's electric and gas suppliers regarding the household's expected energy bill for the next year.

- USF Benefit Determination – OIT determines whether the household's electric or gas burden, net of available assistance benefits, exceeds the 3 percent threshold (or 6 percent for electric heaters).

- Notification – OIT notifies the utility of the amount of the USF benefit for which the household is qualified.

- Fresh Start Benefit Determination – When the utility designates that a customer is on the USF program, it determines the amount of Fresh Start program benefits for which the customer is eligible.

The USF program operations include the following.

- Monthly Credit - The USF customer receives a fixed USF credit each month. The customer is responsible for paying the remainder of the utility bill.

- Fresh Start Credits – Each utility has established procedures for periodically reviewing payments by USF customers and granting Fresh Start credits.

- Fresh Start Reconciliation – After 15 months, any Fresh Start credits that have not been retired are restored to a customer's active account.

The NJ USF program has the following characteristics.

- Program Integration - The USF program is integrated with the HEA program.
- Percent of Income – It is designed to limit bills to a fixed percent of income.
- Percent Standard – The affordability standard is 3 percent of income for each utility bill.
- All Eligible Customers – The program is available to all customers who meet the eligibility standards, whether or not they have exhibited payment problems.
- Fixed Credit – The program furnishes a fixed monthly benefit.
- 12-Month Benefit Period – The program furnishes benefits for 12 months.
- Income Certification – Proof of income is required for program participation.
- 12-Month Arrearage Forgiveness – The program forgives 100 percent of preprogram arrears for 12 months of payments on current bills.

There are a number of ratepayer-funded low-income programs in other states. Some are similar to the NJ USF program, while others are quite different.

- Program Integration – Some ratepayer programs are integrated with HEA, while others are not. Integration is preferred because it ensures that households receive all of the benefits available to them through a single program application.
- Percent of Income – Some ratepayer programs offer customers a rate discount rather than a benefit that is designed to keep energy bills to a fixed percent of income. Rate discounts are easier to implement but do not furnish the highest benefits to customers with the greatest need.
- Affordability Standard – Affordability standards for electric baseload usage range from 3 percent of income (NJ and MD) to 5 percent of income (OH). Affordability standards for gas heating usage range from 3 percent of income (NJ) to 10 percent of income (OH).
- All Eligible Customers – Some programs are limited to customers who are "payment-troubled." Those programs do a better job of targeting program benefits to customers who exhibit the greatest need. However, advocates suggest that payment problems are only one indicator of need and that such programs unfairly penalize low-income customers who forgo other necessities to pay their utility bills.
- Fixed Credit Program – Some programs have implemented fixed payment programs, where the customer pays a monthly percent of income and the monthly credit varies to cover the difference between the customer payment and the utility bill. Fixed payment

programs offer the customer more protection, while fixed credit programs give the customer greater incentives for usage reduction.

? 12-Month Benefit Periods – Most ratepayer-funded low-income programs have a 12-month benefit period. A few have a 24-month benefit, particularly for elderly customers. The CARES program in California has a program that expires only when the customer closes an account.

? Income Certification – Most ratepayer-funded low-income programs require customers to furnish income documentation. The CARES program allows customers to self-certify.

? Arrearage Forgiveness – Ratepayer-funded low-income programs vary widely in the type of preprogram arrearage forgiveness offered. Some programs retire arrearages over a 24-month or 36-month period. Some programs required the customer to pay a portion of their arrears to receive forgiveness for the remainder.

The NJ USF program has many characteristics in common with other ratepayer-funded low-income programs that have been implemented in other states. However, the NJ program is unique in terms of having a statewide program that integrates HEA, Lifeline, and USF programs, in conjunction with direct measurement of electric and natural gas energy burdens.

Program Targeting

The program targeting evaluation examines:

? The size of the population eligible for USF benefits.

? The participation rate of eligible households in USF.

? The participation rate for households with the greatest need for USF.

The program targeting made use of publicly available databases, 2000 Census Public Use Microdata Sample (PUMS), and 2004 Current Population Survey Annual Social and Economic Supplement (CPS-ASEC), along with price data from the NJ investor-owned utilities to estimate the population that is eligible for the NJ USF program. Those estimates were compared to program participant data to examine program targeting.

Households Income Eligible for USF

The following statistics were developed with respect to the population that is income eligible for the NJ USF program (i.e., have income at or below 175 percent of the HHS poverty guidelines).

? About 646,000 of the 3,233,000 NJ households (20 percent) are income eligible for USF.

- About 272,000 of the 646,000 income-eligible households (42 percent) have incomes at or below the HHS poverty guideline. About 228,000 of the income-eligible households (35 percent) have incomes less than $10,000 per year.

- The median electric energy burden of income-eligible households is 5.2 percent of income. About 153,000 income-eligible households have an electric bill of $1,000 or more and about 145,000 income-eligible households have an electric burden of 10 percent or more.

- The median gas energy burden of income-eligible households is 7.1 percent of income. About 179,000 income-eligible households have a gas bill of $1,000 or more and about 138,000 income-eligible households have a gas energy burden of 10 percent or more.

- About 364,000 of the income-eligible households are eligible for a HEA benefit for their electric or gas heating service. About 310,000 of the income-eligible households are eligible for a Lifeline benefit for their electric and/or gas service.

Households Eligible for USF Benefits

The following statistics were developed with respect to the income-eligible population that qualifies for a USF benefit (i.e., has a net electric bill or a net gas bill that exceeds 3 percent of income).

- About 320,000 households are eligible for electric USF benefits and about 189,000 households are eligible for gas USF benefits. In total, 361,000 households are eligible for at least one USF benefit.

- The median electric USF benefit for which households are eligible is $445 per year. The median gas USF benefit for which households are eligible is $672 per year. The median combined USF benefit for which households are eligible is $701 per year.

- About 66,000 of the 361,000 households that are eligible for a USF benefit have a combined need that exceeds the $1,800 annual cap on USF benefits.

- In total, about 320,000 households are eligible for about $174 million in electric USF benefits.

- In total, about 189,000 households are eligible for about $133 million in gas USF benefits.

Households eligible for USF benefits have the following characteristics.

- 164,000 of the 361,000 households eligible for USF benefits (45 percent) have incomes at or below the HHS poverty guideline.

- ? 133,000 of the 361,000 households eligible for USF benefits (37 percent) have incomes at or below $10,000 per year.
- ? About 43 percent have a head of household that is 60 or older.
- ? About 18 percent have a disabled head of household that is younger than 60.
- ? About 18 percent have a child age 5 or younger in the household.
- ? About 40 percent are one-person households.
- ? For about 17 percent of the households, Spanish is the primary language spoken in the household.
- ? For about 16 percent of the households, a language other than English or Spanish is the primary language spoken in the household.

These statistics show that, in addition to having a high energy burden, households that are eligible for USF benefits have low incomes and tend to include vulnerable individuals.

Characteristics of USF Recipients

We obtained data on USF participants from the USF/HEA database that is maintained by the NJ State Office of Information Technology (OIT) and from reports sent by the utilities to the BPU. Our findings include:

- ? About 177,000 households have received USF benefits since October 2003. 139,000 households received electric benefits and 100,000 household received gas benefits.
- ? About 67,000 USF recipients (41 percent) have incomes at or below $10,000.
- ? The median gross electric burden (i.e., electric bill divided by income) for USF electric participants is 8 percent of income.
- ? The median gross gas burden (i.e., gas bill divided by income) for USF gas participants is 11 percent of income.
- ? About 37 percent of USF participants have an elderly head of household.
- ? About 13 percent of USF participants have a child 5 or younger in the household.

By comparing the characteristics of households that are eligible for USF benefits to the characteristics of USF recipients, we can examine the USF program participation rates for USF-eligible households. Our findings are:

- Overall, about 49 percent of eligible households have received USF benefits. About 44 percent of households eligible for electric USF benefits have received them and about 52 percent of households eligible for gas USF benefits have received them.

- Households with incomes at or below 100 percent of poverty are more likely to receive benefits than are households with incomes above 100 percent of poverty.

- Households with incomes at or below $20,000 are more likely to receive benefits than are households with incomes above $20,000.

- Lower-burden households are more likely to receive benefits than are higher-burden households. About 43 percent of households with a gas burden of 15 percent or more receive benefits, but almost 70 percent of households with a gas burden of 3 percent to 5 percent of income receive benefits.

- Households with an elderly head of household are less likely than other eligible households to receive benefits.

- Households with child 5 or younger are less likely than other eligible households to receive benefits.

- Households that speak Spanish as their primary language have a lower participation rate than households that speak English as their primary language.

- Very few households that primarily speak a language other than Spanish or English receive benefits.

- Smaller households participate in the program at a higher rate than do larger households.

Findings on Program Targeting

To serve the households with the greatest need, the program should serve:

- The households with the lowest income.

- The households with the highest energy burden.

- The households with vulnerable household members (i.e., elderly, disabled, young child).

The findings from the targeting analysis show that the program has not been effective in targeting the households in the greatest need. It does not serve households in poverty at a higher rate than those with incomes above poverty. It does not serve the households with the highest energy burden at the highest rate. It serves households with vulnerable members (elderly and young children) at a lower rate than other households. In addition, the program does not appear to serve eligible households whose primary language is not English or Spanish.

Program Accessibility

The program accessibility evaluation examines:

? What are the barriers to program participation?

? Do the barriers differentially affect different population groups?

? What are the potential remediation alternatives?

The information used to address these questions was developed from administrative interviews with program mangers and intake workers, review of program procedures documents, analysis of program participation rates, and interviews with USF customers.

The study finds that there are three types of barriers to program participation.

? Technical Barriers – Program procedures that directly limit or restrict program participation.

? Procedural Barriers – Intake procedures that are so burdensome that they discourage program participation.

? Informational Barriers – Eligible households may be unaware of the program, may be unaware that they are eligible for the program, or may fail to understand program requirements.

The evaluation found that each of those types of barriers exist for the USF program.

Technical Barriers to USF Program Participation

We identified four technical barriers to USF program participation.

? Utility Bills in Rent – Households that pay for their utility bills in rent are excluded from the program. About 15 percent of low-income households have utility bills included in their rent.

? Name on Account – An individual must have his or her name on the utility account to apply for USF benefits. This problem affects an unknown number of households.

? Food Stamp Applicant Screening – Food Stamp applicants are automatically screened for HEA and USF. However, since the Food Stamp application has not been updated to include information on nonheating electric accounts, some Food Stamp applicants who receive gas HEA and USF benefits cannot be screened for electric USF because the electric account information cannot be located. About 50 percent of USF recipients apply for the program through the Food Stamp application system.

- Lifeline Applicant Screening – In 2003, PAAD/Lifeline applicants were screened for USF eligibility. However, since the Lifeline application does not include all of the information and documentation that is required for an application for HEA and USF, these households are not screened for USF eligibility. About one-third of the October 2003 USF participants were screened from the Lifeline database.

A major barrier to program participation could be eliminated if the USF/HEA, Food Stamp, and Lifeline program applications all included an information request that would allow a household to be screened for eligibility for the USF program. That way, any household that completes an application for energy assistance of any type would be considered for USF benefits.

Procedural Barriers to the USF Program

We reviewed a number of components of the USF program application and processing procedures to identify procedural barriers to the USF program.

- Application Requirements – The program application requires extensive documentation to ensure the fiscal integrity of the program. The evaluation team identified some requirements that might be eliminated. These should be reviewed by the program administrator.

- Application Procedures – The program allows clients to mail applications and coordinates its applications with the Food Stamp program. This gives clients a number of options for submitting an application. However, clients who speak a language other than English or Spanish, and clients with literacy problems could have a significant problem completing the application. The program administrator should try to identify procedures that will facilitate completion of the application by these households.

- Agency Processing Procedures – Agencies review and enter HEA/USF applications. However, they face challenges in ensuring that the application is complete. It is hard for them to contact households that send applications by mail and to track the status of applications that have been submitted. A set of "best practices" for intake agencies should be identified and agencies should be furnished with the information and resources needed to implement those "best practices."

- Agency Processing Backlog – For 2005, a processing backlog at intake agencies represented a major barrier to program participation. In Section IX of the report, we discuss the apparent sources of that backlog and remediation procedures in greater depth.

The USF customer survey also furnishes some information on the procedural barriers perceived by USF customers.

- Only about 60 percent of USF customers are aware that they applied for HEA benefits.

- Of those who are aware of applying, only 25 percent reported that the HEA application was "somewhat difficult" or "very difficult."

- Of those who reported difficulty, about half indicated that the forms were too long or burdensome.

From the current client perspective, the application procedures are not the major barrier to the program. However, since a client must be able to complete the forms to become a client, we are missing the information on potential clients who are unable to complete the required forms.

Informational Barriers

Three types of informational barriers can affect program participation.

- Program Awareness – Eligible customers may not be aware that the program exists.

- Program Perceptions – Eligible customers may be aware of the program, but may perceive that they are not eligible or the program is not useful.

- Program Procedures – Eligible customers may be aware of the program and may wish to apply, but do not understand the application procedures.

The evaluation found that all three types of informational barriers are present in the USF program.

Client Outreach

In thinking about potential information barriers, it is important to assess whether there has been an active communication environment and whether clients are receptive to communications. From the available evidence, it appears that communication attempts have been made and that clients are used to working with utilities, local agencies, and other resources.

- Outreach – USF clients who were enrolled in the program in October 2003 received at least four communications from the utilities and the state over the two-year period. Fresh Start program participants received at least eight program communications.

- Client Receptivity – Most clients reported that they had a source of information when they needed assistance with their energy bill. Over three-fourths of the clients surveyed reported having one or more information sources. Almost all of these clients felt confident working with at least one of the sources.

Client Awareness

Despite this outreach and information, between 20 and 30 percent of USF clients are unaware of the HEA program and 40 percent are unaware of the USF program. Only 40 percent of USF clients were aware that they were receiving USF benefits. Only about 20 percent of USF Fresh Start clients were aware that they were also receiving Fresh Start Benefits.

These program awareness rates are quite low. However, since the USF program has been implemented in conjunction with the HEA program, it may be quite difficult for clients to understand that they are applying for both HEA and USF when the procedures are essentially the same as they were for HEA alone. Moreover, when clients who are receiving USF were asked whether they saw credits on their utility bill and why they were receiving them, many clients suggested that they were HEA benefits.

Program Perceptions and Program Procedures

Since relatively few clients are aware of their USF benefits, we were only able to gather information on program perceptions and program requirements from a small sample of USF participants. Among those who were aware of the program, about half perceive that it had improved their ability to pay both their energy and nonenergy bills. About half of the clients perceive that the only program requirement is that they pay their energy bills. Only about 25 percent of the clients were aware that they needed to reenroll in the program.

Program Accessibility Recommendations

Our evaluation suggests that there are three initiatives that the program should undertake to improve access to the program.

- Technical – Coordination of the three existing energy information systems – USF/HEA, FAMIS, and Lifeline -- should improve program access.

- Procedural – There is evidence that incomplete applications are a major barrier to clients' properly enrolling in the program. The program administrator should work to develop strategies that help to reduce or resolve these application problems.

- Informational – Clients have very little awareness of the USF program. A more effective communication strategy should be developed.

As the program start-up issues are resolved, the program implementers can turn their attention to these accessibility issues. However, we expect that additional resources would be required to meet program goals for accessibility.

Payment Compliance

One important goal of the USF program is to ensure that clients can pay all of their utility bills each year. To examine the success of the program in meeting these goals, we used utility transaction data to measure the rate at which USF clients paid their energy bills in the most recent twelve months – approximately August 2004 to July 2005. In this analysis, we examined:

- Payment Compliance Rates – The percent of a customer's bill that was paid.

- Sources of Payment – The average share of customer charges that were paid by different sources and the distribution of payment by different sources.

- Client Group – We examined which subgroups had the most difficulty paying their energy bills.

- Utility Service – We reviewed the actions being taken by utility companies to help clients maintain service.

After examining all of these factors, we identified program changes that might help to improve payment compliance.

Payment Compliance Rates

On average, USF clients covered over 100 percent of their charges. The average of client charges was $1,668 and the average of client payments was $1,689. However, Fresh Start participants had a lower payment compliance rate; Fresh Start participants paid about 94 percent of their charges during the annual period.

The distribution of coverage rate, however, does not appear as promising. About 67 percent of clients paid 100 percent or more of their charges. Over 15 percent of clients paid less than 90 percent of their charges. Fresh Start participants had more difficulty paying their bills; 35 percent of Fresh Start participants paid less than 90 percent of their bill.

Sources of Payment

In the USF program, utility bills for clients are paid by a number of sources, including customer payment, HEA benefits, USF benefits, and Lifeline benefits. Of course, each different client has a different set of benefits. However, the averages are instructive.

- Customer Payments – The mean amount is $705, or 44 percent of customer bills.

- USF Credits – The mean amount is $626, or 39 percent of customer bills.

- HEA Credits – The mean amount is $206, or 12 percent of customer bills.

- Lifeline Credits – The mean amount is $61, or 5 percent of customer bills. [Note: Lifeline recipients receive $225. However, only 31 percent of USF customers receive Lifeline benefits.]

It is clear that USF credits represent a major benefit to USF clients.

Analysis of Client Subgroups

We conducted an in-depth analysis of individual client groups to assess the differential rates of payment coverage. However, we were concerned that correlation among analysis variables made it difficult to discern which factors had the most impact on payment coverage rates. We conducted a regression analysis to identify the key factors associated with payment coverage. We found:

- ? Fresh Start – Coverage rate for these customers was measured to be about 10 percentage points less than that for other clients.

- ? HEA Receipt – If the customer received HEA during the year, their coverage rate was about 10 percentage points more than that for clients that did not.

- ? Total Charges – Each increase in customer charges of $1,000 was associated with a coverage rate decline of 3 percentage points.

- ? Lower Income – Households with income less than $10,000 had coverage 4 percentage points higher than that for households with income above $20,000.

- ? Customers in Economically Distressed Areas – Customers in economically distressed areas had a coverage rate about 4 percentage points lower than that for those in other areas.

Service Maintenance

Evidence from the utility collection reports indicates that utilities are cautious in disconnecting service for USF customers. Utilities are reporting that a significant percentage of USF customer have arrears – rates range from about 20 percent to over 40 percent. However, most utilities shut off fewer than 1 percent of clients in June 2005. For many utilities, the reconnection rate represents a large fraction of all shutoffs. Finally, utilities are offering payment-troubled USF customers DPA agreements.

Payment Compliance Recommendations

The data available from this analysis directly suggest three program enhancements:

1. HEA Participation – The effort to inform USF customers that they need to reapply for their HEA benefits needs to be more effective.

2. Usage Reduction – High-usage households should be targeted by the Comfort Partners and WAP programs to ensure that clients have affordable bills.

3. Fresh Start/Distressed Communities – The program needs to make use of the information developed in the PSE&G and JCP&L pilot programs to develop strategies for working with payment-troubled USF clients.

In addition to these data-driven recommendations, another program enhancement may be appropriate. Under the current program guidelines, most customers have energy bills that vary significantly each month. For example, if a client gets a HEA grant, he or she might not have any bill to pay for several months. Similarly, a gas USF customer might have a USF benefit that covers more than 100 percent of a summer bills, but that might cover only 20 percent of a winter bill. These kinds of variation in monthly payments may be challenging for USF customers to manage.

One option for the program is to offer clients an equal monthly payment plan that accounts for all program benefits. For example, if the client had a $2,400 combined energy bill, he or she would have a budget plan for $200 per month. If the client had a $600 USF benefit, the monthly budget amount would be reduced by $50 to $150 per month. Further, if the client had a $300 HEA grant, the monthly budget amount would be reduced by another $25 to $125 per month. It may be easier for a client to pay $125 monthly than it would be to pay nothing in some months and over $200 in others.

Program Retention

It is important for clients that are eligible for USF to continue to receive USF benefits at the end of the twelve-month period. To reenroll in the program, the client must be income eligible for the program, successfully complete a HEA/USF application, and have an energy bill that exceeds 3 percent of income. From our analysis, it appears that awareness of the need to reapply and successful completion of the program application are two factors that are affecting program retention rates.

From the USF/HEA database, we were able to develop the following statistics.

- Reenrollment Attempt Rate – About 64 percent of USF clients attempted to reenroll in the USF program.

- Income Eligibility – About 62 of USF clients attempted to reenroll and were found to be income eligible for the program.

- Complete Application – About 44 percent of USF clients attempted to reenroll and were found to be income eligible and have a complete application.

The first concern is that about 36 percent of USF customers appear to have failed to reapply for the program. This is not unexpected, since we saw earlier that only 25 percent of USF participants were aware of the reenrollment requirement. However, it means that over one-third of the population will lose benefits that they have had for about two years. This will probably result in a new HEA application. However, before they realize that they need to complete the application, they may build up new arrears that cannot be forgiven through the Fresh Start program.

The second concern is that about 18 percent of USF customers appear to have attempted to apply for the USF program, but were not able to properly complete the application. Anecdotal information from the intake agencies suggests that the system for contacting clients who have incomplete applications needs to be improved. Efforts to enhance that system should pay dividends in terms of program continuity for clients who need benefits.

Client Program Impacts

The goal of the USF program is to make electric and gas bills affordable for low income households in New Jersey and to thereby minimize the consequences of unaffordable energy bills. In this analysis, we examine client perceptions of affordability, assess impact of the program on customer arrearages, and measure the change in electric and gas usage that results from USF program participation.

Energy Bill Affordability

The USF program is targeted to reduce the client's net energy burden to 6 percent of income (3 percent of income for electricity and 3 percent of income for gas). Prior to enrolling in the USF program, the average gross energy burden for customers who use both electricity and gas was more than three times that amount, over 18 percent of income. After accounting for HEA, USF, and Lifeline benefits, many customers have energy bills that are about 6 percent of income.

However, in the USF customer survey, we found that most USF clients do not perceive that their energy bills are affordable. Most worry about paying their bills almost every month and about three-fourths say that they need additional assistance to pay their energy bills. In the USF customer survey, we asked a series of questions on the actions that customers must take to pay energy bills and the impacts of unaffordable energy bills on their health and safety. While the USF program appears to have some positive impact on these issues, many USF clients continue to face significant challenges in paying their electric and gas bills.

Change in Customer Arrearages

There are two ways that the USF program can reduce customer arrearages. First, the Fresh Start Program allows a customer to eliminate past arrearages by making payments on current bills. Second, the USF program reduces a customer's current bill, making it less likely that the customer will build up significant new arrearages.

Our analysis showed that the Fresh Start Program was very effective. On average, Fresh Start participants eliminated about 90 percent of their preprogram arrearages. About three-fourths of Fresh Start customers achieved 100 percent forgiveness of preprogram arrearages.

However, while the Fresh Start Program was able to eliminate a large share of preprogram arrears, some USF participants built up new arrearages as a result of an inability to pay their current utility bill, despite receiving USF program benefits.

The program impact was quite variable by customer group.

- Lifeline-only Clients – On average, Lifeline-only clients started the program with a small balance and had a credit on their account by August 2005. On average, about 10 percent of Lifeline-only clients had arrears at the start of the program and about the same percentage had arrears at the end of the analysis period.

- Electric USF Clients – On average, electric USF clients who enrolled in October 2003 reduced their arrears by almost $100 between the beginning of the program in October 2003 and August 2005. On average, about 60 percent of these customers started the USF program with a zero balance and about 75 percent ended the analysis period with a zero balance.

- Gas USF Clients – On average, gas USF clients that reenrolled in FY 2005 reduced their arrears by about $125 compared to a reduction of $2 for clients who did not reenroll. It appears that most of the reduction in arrears was the result of a $175 LIHEAP Supplemental grant that was paid in 2005. About 70 percent of these customers started the USF program with a zero balance. For customers that reenrolled in the USF program, 85 percent had a zero balance at the end of the analysis period. However, for those that did not reenroll in USF program, there was no change in the share of customers with a zero balance.

- PSE&G Clients – On average, PSE&G customers had a reduction of about $300 in their arrears from September 2003 to August 2005. This reduction is large compared to that for the other groups. Similarly, while only about 50 percent of PSE&G customers started the program with a zero balance, over 70 percent of PSE&G USF participants had a zero balance by the end of the analysis period.

It appears that the size of the USF program impact is directly related to the level of payment problems prior to program enrollment. Since few Lifeline-only clients had payment problems prior to enrollment in the USF, the program did not have a significant impact on arrearages. However, since about half of PSE&G customers enrolled in the USF program had payment problems, the program had a larger impact on their arrearages.

Change in Customer Usage

Our analysis showed that the USF program did not appear to affect electric or gas usage. A comparison of preprogram data (October 2002 to September 2003) to postprogram data (October 2003 to September 2004) demonstrated that customers who received USF benefits in October 2003 reduced usage slightly more than did customers who did not receive benefits until later in the program implementation.

Summary of Client Impact Findings

The USF program significantly reduces electric and gas bills for USF clients. For some clients who have significant payment problems, the program was successful in helping them to eliminate preprogram arrears and preventing accumulation of new arrears. However, the program did not achieve success for all clients.

For some clients, the program may not have been as effective as it could have been because the client paid more than the target percentage of income for electric and gas. To resolve those problems, the program must continue to communicate with clients to ensure that they receive all

the benefits for which they are eligible and to help those clients who need continued assistance to remain on the USF program.

However, the USF customer survey demonstrated that many USF clients have economic problems that go beyond the size of their utility bill. From that perspective, counseling and referral to other assistance programs might be more effective in helping clients to resolve payment problems than might increases in the USF benefit.

Utility Program Impacts

The implementation of the USF has significantly reduced energy burdens for low-income utility customers. In addition, the Fresh Start program allows participating customers to eliminate past arrears by paying their current electric and gas bills. The USF and Fresh Start programs have the potential to reduce payment problems for low-income customers and thereby to reduce utility collection costs and utility uncollectibles.

In this evaluation, we developed three different ways to measure the change in payment problems for USF customers. Each measurement technique furnishes somewhat different information on the change in payment problems for USF customers.

- Payment Compliance – We measured the difference between the share customers that paid their full bill during the year prior to program enrollment (10/02 to 9/03) and the share of customers that paid their full during the analysis year (7/04 to 6/05). Data were available for ACE, RE, SJG, and NJNG. For the electric companies, there was a 2 percent increase in the share of customers paying their full bill, from 79 percent to 81 percent. For the gas companies, there was a 28 percent increase in the share of customers paying their full bill, from 55 percent to 83 percent. Data were not available for PSE&G, JCP&L, or ETG for this analysis.

- Arrearage Status – We measured the change in the share of USF customers with arrears from 9/03 to 8/05 (4/04 to 8/05 for PSE&G). This analysis showed a 13 percent reduction in the share of customers with arrears for the electric companies, a 4 percent reduction in the share of customers with arrears for the gas companies, and a 16 percent reduction in the share of customers with arrears for PSE&G.

- Arrearage Threshold – We measured the change in the share of customers with arrears above a certain threshold during the collection periods (April to September) for 2003 and 2005. Data were available for JCP&L, ACE, RE, NJNG, and SJG. The analysis showed a 10 percent reduction in the share of households above the threshold for the electric companies and a 9 percent reduction in the share of households above the threshold for the gas companies.

Based on these findings, we estimated that the change in the share of customers with payment problems is likely to be in the range of 5 percent to 25 percent of USF customers. In our

estimates of utility program impacts, we examine the cost implication of 5 percent, 15 percent, and 25 percent reductions in payment problems as a result of the USF program.

Using utility collection reports submitted to the BPU we examined the actual change in utility collections activities from 2003 to 2005. Our findings include:

- Disconnect Notices – Utilities experienced changes in the number of disconnect notices. However, there was no systematic direction to the change.

- Field Visits – Utilities experienced changes in the number of field notices. However, there was no systematic direction to the change.

- Service Terminations – All of the electric-only utilities experienced a decrease in service terminations between 2003 and 2005. Two of the three gas utilities experienced an increase in service terminations. Service terminations increased for PSE&G.

- DPAs – All of the electric-only utilities experienced an increase in the number of new DPAs, while all of the gas-only utilities and PSE&G experienced a decrease in the number of new DPAs.

- Write-Offs – All of the electric only utilities experienced a decrease in the amount of net write-offs. PSE&G and NJNG experience an increase in net write-offs. ETG had no change in write-offs. SJG had a significant reduction in net write-offs that was attributed to a significant change in collections procedures and accounting.

From this analysis, we find no systematic change in actual utility collection actions that are attributable to the implementation of the USF program.

To the extent feasible, we measured how the USF program changed costs for participating utilities. Our findings include:

- Utility USF Program Administration Costs – We estimate that the total utility cost for implementing the USF program is in the range of $20 per USF customer and that the incremental cost is about $10 per USF customer. For the caseload of about 120,000 USF customers during 2005, the total utility cost was about $2.4 million and the incremental utility cost was about $1.2 million.

- Collection and Working Capital Cost Offsets – We estimate that the average collection and working cost savings for New Jersey utilities was about $34 per payment-troubled customer. Looking at a range of potential program impacts from 5 percent to 25 percent, we estimated that the collection and working capital cost offsets were between $200,000 and $1.1 million for 2005.

- Write-Off Cost Offsets – Any reductions in write-offs for electric utilities accrue to the SBC uncollectible fund, not to the electric utilities. In 2005, the gas utilities grant about $11.1 million in Fresh Start benefits to USF customers. However, because of the timing

of the Fresh Start implementation, a unknown share of the Fresh Start forgiveness would have been collected from customers or would have been paid through Emergency HEA funds if the Fresh Start program were not in place. For that reason, it is not possible to estimate the potential write-off cost offset. In addition, we found that gas uncollectibles rose by about 10 percent between 2003 and 2005.

Based on the available evidence, it appears that the utility USF program administration costs may have been offset by reductions in collection costs for the 2005 program year. It is possible that the USF program reduced the gas utility write-offs compared to what they would have been without the USF program. However, we do not have the information that we need to measure the share of Fresh Start benefits that would have been write-offs in the absence of the USF program. In addition, we find that actual gas company write-offs rose by 10 percent in 2005 when compared to write-offs for 2003.

Agency Program Impacts

The implementation of the USF program has required that DHS, OIT, DCA, and local HEA intake agencies make a series of significant changes, including the development and use of new information systems and changes in the ways in which they communicate with the low-income families they serve.

? *Impact on DHS* – To implement the USF program, DHS had to develop USF policies and procedures, direct OIT in the establishment of procedures for implementing USF policies and procedures, direct OIT in the development of a new system for processing the joint HEA/USF application, and establish new policies and procedures for DCA and HEA intake agencies. DHS, with the assistance of OIT and DCA, was successful in meeting most of these challenges. However, a number of important program management activities, client outreach and communication procedures, and systems enhancements still need to be completed. It is our assessment that DHS does not have adequate funding to implement these procedures in a timely way. Further, state hiring and contracting policies represent a barrier to DHS managers in their attempts to obtain the resources needed to meet all of the USF program goals.

? *Impact on DCA and Contracting Local Intake Agencies* - Under the purview of DCA, local intake agencies have been required to train staff on the new USF/HEA application and supporting technology for the database, work with DFD and OIT to troubleshoot the newly installed system as they input client data, and alter procedures for communicating with their clients. While DCA and the local intake agencies were successful in enrolling a large number of clients in the USF program, there were important barriers to the successful program implementation in FY 2004-2005 that continue into the FY 2005-2006 program. In particular, the USF contracting procedure has not been effective at furnishing USF intake agencies with funding at the beginning of the program year, clearly documenting the responsibilities of the intake agencies with respect to program outreach and program performance, and clearly establishing agency fiscal reporting requirements.

We recommend implementation of the following changes in program administration to ensure that the responsible agencies are able to fulfill their responsibilities to their clients.

? Funding – The USF program administration budget should be raised to 10 percent of total program funding to ensure that adequate resources are available to address all program issues.

? Hiring and Contracting Policies and Procedures – BPU staff, the treasurer's office, DHS, OIT, DHSS, and DCA need to meet together to establish the staffing and contracting needs for each agency to fulfill its USF responsibilities. Subject to the availability of USF funds, individual program managers should be authorized to hire the staff required and to fund the contracts needed to fully implement the USF program.

? DHS and OIT Reporting – Once DHS and OIT have adequate resources to meet the current program operational requirement, DHS and OIT should devote appropriate resources to the development of reports to meet the BPU's information needs and to the development of resources for DCA and the intake agencies to facilitate communications with USF clients regarding program applications and benefit determination.

? DCA and Intake Agencies – Procedures should be established that ensure that local agencies have USF funding at the start of the program year, have a clear statement of program responsibilities, and have well-documented fiscal reporting responsibilities. To facilitate this process, the BPU, DHS, and DCA need to work together to align the fiscal management practices for USF so that they meet the audit requirements of all of the organizations that have responsibilities for the USF program.

? Memorandum of Understanding – The USF program administration MOU needs to be updated to reflect the changes that have been made in the program and to document all of the agreements among the program implementation partners. The MOU should explicitly include interactions with DHSS regarding the linkage between the Lifeline Program and the USF/HEA program.

The evidence on program accessibility suggests that a significant number of eligible households are failing to receive benefits because they are unaware of the USF program and/or because they do not understand their status with respect to the program. These changes in program administration are required to resolve those program issues.

Program Linkages and Program Efficiency

Improving the functionality of the USF program, to a great extent, lies in eliminating missed opportunities to serve USF-eligible clients and synthesizing the activities of other social service programs that provide energy assistance and/or serve low-income families with the USF program.

Recommendations for Enhanced Collaboration

Analysis of the current linkages with other related programs indicates that USF eligible customers would benefit if the BPU improved coordination with the following agencies:

? *Lifeline Program* - Without direct linkage between the USF and Lifeline programs, analysis indicates that a significant portion of this population will not be served. The BPU needs to make a policy decision on procedures for including Lifeline households in the program. It can decide that all Lifeline households should be screened for USF or it can decide that all Lifeline households should receive effective communications on USF program benefits and support in completing USF/HEA applications. Once it makes this policy decision, it should direct DHS to implement procedures that will meet those policy goals.

? *NJ SHARES* - Although participants in the NJ SHARES program are ineligible for HEA and USF benefits, there are ways to improve linkages between NJ SHARES and USF. Both local intake agencies and NJ SHARES offices should standardize the practice of referring ineligible clients to the other program. DCA should also investigate opportunities to develop contracts with any of the 80 NJ SHARES intake agencies that serve subgroups of clients that may currently be underserved by the local intake agencies for the USF/HEA program.

? *Comfort Partners* - There are currently no BPU guidelines or MOU in place with the Comfort Partners program to provide energy efficiency devices and education to USF customers. Utility companies and the agencies that contract with the Comfort Partners program have developed systems for identifying and recruiting USF customers. The BPU should work with the utilities to standardize their system for referring USF clients to the Comfort Partners program and establish official guidelines for coordinating these two benefits.

While other public assistance programs in New Jersey also provide services to USF customers, the BPU should prioritize establishing the aforementioned linkages prior to undertaking additional activities with other social service agencies.

Summary of Program Benefits and Costs

The USF program has furnished important benefits to the low-income households in New Jersey, including:

? Cash Benefits – USF program participants received credits of over $600 per year.

? Preprogram Arrears – USF program participants that had preprogram arrears received forgiveness that averaged $540.

? Nonmonetary Benefits – There is evidence that USF program resulted in reductions in the negative consequences of unaffordable energy bills.

The USF program is also beneficial to the agencies that administer the program. DHS was able to develop a new USF/HEA information system that potentially can furnish much more information on low-income households. The local intake agencies are able to serve clients on a year-round basis, rather than just seasonally as they did under the HEA program.

The USF program demonstrated that it has the potential to deliver two kinds of benefits to the utility companies. It allows the utilities to establish a different kind of relationship with their low-income customers; a collaborative relationship, rather than an adversarial one. It also has the potential to reduce collections and write-off costs. However, it the short run, it appears that program administration costs at least offset program collection savings. Further, the timing of the Fresh Start forgiveness for 2003 and 2004 participants makes it impossible to measure the share of Fresh Start forgiveness that was uncollectible for gas utilities.

There are a number of ways that we recommend that the USF program be improved, including:

- Program Intake Systems – Program enrollment barriers can be reduced by enhancing and coordinating the systems that serve low-income households. More consistent receipt of benefits by eligible households would enhance program benefits.

- Client Education – Clients need information that helps them to take full advantage of the set of benefits available to them. The program has communicated with clients in a number of ways. However, it appears that those communications have not been effective in furnishing clients with the information that they need.

- Distribution of Benefits – Some USF clients perceive that their bills are still unaffordable. The program should consider a system that makes client payments more consistent from month to month, and thereby improves the client's ability to manage their energy bills.

- Usage – The program should formalize the procedures for delivering usage reduction services to USF program participants and should furnish incentives that ensure that the highest-usage households participate.

- Nonparticipant Outreach – The program needs to develop better procedures for informing nonparticipants about the USF program so that they can take advantage of the program benefits if they need them.

These actions should be effective in improving the benefits that USF customers receive from the program. To implement these initiatives, the program administration budget should be increased to 10 percent of total program funding.

The total USF program costs for the 2004-2005 fiscal year was about $102 million, including:

- USF Credits to Customers - $74 million

- Fresh Start Credits to Customers - $22 million

? Utility Administration and Interest Charges - $1 million

? Program Administration Costs - $5 million.

We did not find any evidence that program cost-effectiveness could be improved by spending administrative dollars more efficiently. Rather, we believe that the best way to improve the cost-effectiveness of the program is to implement program changes that will increase the program impact.

I. Introduction

The New Jersey Board of Public Utilities (BPU) implemented the New Jersey Universal Service Fund (USF) in October 2003. The goal of the USF program is to make electric and gas service affordable to low-income households in New Jersey. The BPU has contracted with APPRISE to conduct an evaluation of the USF program. The purposes of this evaluation are to assess whether the program has been successful in meeting its goal and to determine what changes, if any, are needed to improve the program's performance. In this section of the report we furnish information on the program history and structure, and furnish detailed information on the specific questions to be addressed in the evaluation.

A. Program History

The USF has evolved through several stages from initial legislation to the current permanent program.

? On February 9, 1999, former Governor Christine Todd Whitman signed the Electric Discount and Energy Competition Act (EDECA) into law. The primary purpose of the EDECA legislation was to deregulate the utilities and allow residential customers to choose their own electric or gas supplier apart from their utility supplier. As part of the EDECA legislation, the BPU was authorized to establish the USF.

? In February 2000, the BPU initiated the process for establishing the USF. The BPU conducted meetings, held public hearings, and solicited comments regarding the EDECA requirements, existing energy assistance social programs for New Jersey residents, and USF programs that had been established nationwide.

? In November 2001, the BPU ordered that an interim USF program be established. The interim USF provided nearly 100,000 low-income New Jersey utility customers with $15 million of utility assistance by means of a one-time fixed credit of $200 (or $100 for utility customers whose utility expenses are included in their rent).

? Using information developed from the interim USF program and several USF working group meetings, the BPU staff developed a "Straw Proposal" for a permanent USF. After review of the proposal and comments, the BPU established the permanent USF on April 30, 2003.

There have been two phases of the permanent USF: automatic enrollment and direct enrollment.

? The automatic enrollment program began in October 2003 when low-income utility customers were enrolled into the USF automatically by the Division of Family

Development within the New Jersey Department of Human Services (DHS) based on eligibility criteria using existing lists of Home Energy Assistance (HEA) Program and Lifeline benefit recipients.

? The direct enrollment program began in October 2004 when procedures were developed to allow low-income utility customers to directly apply for USF benefits by completing a USF/HEA application and submitting it to a designated community-based organization. In addition to direct enrollment, a customer also can be enrolled in USF through an automatic screening process of Food Stamp applicants.

While the basic elements of the USF program have been consistent since the program inception, there have been a number of changes in the way that the program operates. For a complete description of the program operations, see the *Program History and Operations Report*.

B. Program Structure

The NJ USF program has a unique design that represents a major step forward in the integration of rate-based and government-funded programs, as well as in the targeting of benefits to the customers in the greatest need.

As a result, the USF has a complex administrative structure.

? The BPU has fiscal responsibility for the program.

? DHS is responsible for program administration.

- DHS works with the New Jersey Office of Information Technology (OIT) to develop and maintain a data system for the program.
- DHS has also contracted with the New Jersey Department of Community Affairs (DCA) to use community-based organizations to provide intake services.

? The seven major electric and natural gas utilities in New Jersey are responsible for providing program benefits.

- The utilities furnish DHS with information on projected energy costs for each program applicant.
- The utilities credit customer accounts with the benefits assigned by DHS.
- The utilities enroll customers who are assigned USF benefits by DHS and have arrearages of $60 or more into the Fresh Start Program, and credit those customer accounts with arrearage forgiveness benefits that are earned through customer payments.

- The utilities provide and exchange information necessary for customer benefits to continue when the customer moves and initiates utility service at a new residence in New Jersey.

Each of these program partners plays an important role in the successful implementation of the USF.

C. Purpose of the Evaluation

The APPRISE evaluation team was contracted to furnish information to the BPU regarding the benefits and costs of the USF and to identify alternatives for program design and operations that can increase program benefits and/or cost-effectiveness. It is important to note that the work scope did not ask the evaluation team to recommend goals for the USF program, nor to comment on whether the implied targeting goals associated with the benefit determination procedures are appropriate. The evaluation team considers those to be policy questions, rather than evaluation questions and they are not addressed in this report.

The evaluation addressed the following questions.

I. Program Targeting

A. What is the size and composition of the population that is eligible for benefits under the under USF and Fresh Start?

B. What percentage of the eligible population is receiving benefits from the USF program?

C. Explain whether or not the program is serving the customers with the greatest need.

II. Program Accessibility

A. What are the barriers to program participation?

B. Do the barriers differentially affect different population groups? If so, how?

C. What are the potential remediation alternatives?

III. Payment Compliance

A. What is the distribution of customers by payment rate for both USF customers in general and Fresh Start participants specifically?

B. What factors are associated with a failure or inability of USF and Fresh Start participants to make payments?

C. What are the potential remediation alternatives?

D. Explain whether effective additional steps are being taken to keep utility service available to USF recipients who continue to face utility bill affordability problems.

IV. Program Retention

A. What percentage of clients reenroll in the program?

B. What factors are associated with a failure to reenroll?

C. Explain whether or not there are appropriate remediation procedures.

V. Client Program Impacts

A. To what extent does the program make participants' energy burden affordable?

B. Is the size of the benefits under USF and Fresh Start appropriate? If not, how should it be changed?

C. Do USF and Fresh Start; enable households to reduce preprogram arrearages? Are customers successful under the Fresh Start program, and why and why not?

D. Explain whether or not USF increases the household's ability to maintain service.

E. How are client disputes resolved with respect to eligibility, the amount of monthly credit, and application of Fresh Start credits?

F. Explain whether or not the program reduces the other consequences of high energy bills.

G. What impact does the program have on clients' energy usage?

H. Are clients satisfied with the program? If not, why?

VI. Utility Program Impacts

A. What is the net change in collection actions for participating customers?

B. What is the net change in arrearages for participating customers?

C. What is the net change in uncollectibles for participating customers?

D. What is the net change in cash working capital?

E. How do these changes affect the costs incurred by the utilities?

F. In what other ways does the USF program affect utility costs?

VII. Agency Program Impacts

A. How does the program affect the ability of DHS to fulfill its responsibilities to low-income households?

B. How does the program affect the ability of service provider agencies to serve their low-income clients? The service provider agencies are DCA community agencies that interface with customers.

VIII. Program Linkages and Program Efficiency

A. Is the program effectively linked to other energy programs, (including LIHEAP, LIFELINE, WAP, Comfort Partners, FEMA, NJ SHARES)? What improvements, if any, could be made in linking these programs?

B. Is the program effectively linked to other federal, state, and local benefit programs; what improvements, if any, could be made in linking these programs?

C. Is the current organization of the program the most efficient? How, if at all, could the organization of the program be made more efficient?

D. Is the current organization of the program most effective in reaching potential customers; how if at all, could the program be more effective in this respect?

IX. Summary of Program Benefits and Costs

A. What are the set of benefits, monetary and non-monetary, that have been delivered by the USF program to program recipients and ratepayers? Nonmonetary program benefits could include, by way of example but not limitation, clients' satisfaction with the program, decreased disconnections, or clients' ability to pay for other needs.

B. In what way could the program benefits be enhanced?

C. What are the program costs for USF credits, arrearage forgiveness and administration?

D. In what ways could the program be more cost effective?

These evaluation questions were prepared by the BPU, in consultation with the USF Working Group. In each report section, we discuss the extent to which each evaluation question can be answered with the available data. The NJ USF program data tracking system is still being developed. In some cases, we were not able to answer evaluation

questions because data were not yet being reported or because historical data were not available to be maintained.

D. Organization of the Report

The report begins with a discussion of the design of the New Jersey USF program in the context of the energy needs for low-income households and the existing energy assistance programs in New Jersey. Each subsequent section addresses one of the evaluation questions, including a discussion of the evaluation question, the methodology used to address the evaluation question, and the evaluation findings with respect to the evaluation question. The final section of the report presents the findings and recommendations of the evaluation team.

II. USF Program Design

The USF program was designed to make electric and natural gas bills affordable for low-income utility customers in New Jersey. In this section of the report, we discuss the program design elements and furnish background information to establish the context within which the program was designed.

? USF Program Design Elements – We describe the basic elements of the USF program and discuss how the program is expected to make energy bills affordable for low-income utility customers.

? Preexisting NJ Energy Assistance Programs – We identify the energy assistance programs that were available to low-income households prior to the implementation of the USF program and document the ways in which those programs are integrated and/or coordinated with the USF program.

? Energy Needs of Low-Income Households – We furnish statistics on the energy needs of low-income households and discuss how the USF program is designed to address those needs in conjunction with the other low-income energy assistance programs.

? Other State Program Design Models – We compare and contrast the NJ USF program design with the designs of ratepayer-funded low-income energy assistance programs implemented by other states.

This section of the report shows how the NJ USF program is designed to work with other New Jersey energy assistance programs to meet the energy needs of low-income utility customers. It identifies program design alternatives that could have been adopted by the USF program and discusses the implications of the choices that were made in the NJ USF program design.

A. USF Program Design Elements

The USF program furnishes energy assistance to low-income utility customers. It operates in the following way.

1. Eligibility – Households are potentially eligible for the USF program if they meet the following eligibility criteria.

    a. Utility Customer: They receive natural gas or electric service from one of the seven BPU-regulated utilities[2],

[2] The seven BPU regulated utilities are Atlantic City Electric Company d/b/a Conectiv Power Delivery ("Conectiv"), Jersey Central Power and Light Company d/b/a GPU Energy ("JCP&L"), Public Service Electric and Gas Company ("PSE&G"), Rockland Electric Company ("RECO"), AGL Elizabethtown Gas Company ("Etown"), New Jersey Natural Gas Company ("NJNG"), and South Jersey Gas Company ("SJG").

b. Income: They have household income at or below 175 percent of the Health and Human Services (HHS) poverty guideline[3], and

c. Energy Burden: They have electric or natural gas bills exceeding a 3 percent energy burden threshold for each utility (or 6 percent for customers who use electric heat).

2. Enrollment – Currently, households are screened for the USF program if they complete the HEA section of the Food Stamp application at a county social services office or if they submit a USF/HEA application to a designated HEA/USF intake site.[4]

3. Screening – OIT screens a household for USF eligibility in the following way.

a. Affordable electric bill / affordable gas bill – The household is assigned an affordable electric bill amount that is computed as 3 percent of the household's annual income (6 percent if the household heats with electricity). The affordable gas bill amount is computed as 3 percent of the household's annual income.

b. HEA benefit – The household is assigned a HEA benefit based on the HEA benefit determination procedures.

c. Lifeline benefit – Lifeline files are checked to determine whether the household has received a Lifeline benefit in the most recent fiscal year.

d. Electric energy burden / Gas energy burden – An information request is sent to the household's utility companies for information on the projected annual energy burden for the household.

e. Net electric energy burden / Net gas energy burden – OIT computes the household's net electric energy burden as the reported electric energy burden minus any assistance amounts (HEA or Lifeline) that were credited to the household's electric account. The household's net gas energy burden is computed as the reported gas energy burden minus any assistance amounts (HEA or Lifeline) that were credited to the household's gas account.

f. Annual USF Electric / Gas Benefit – OIT computes the annual USF electric benefit as the net electric energy burden minus the affordable electric bill. The annual USF gas benefit is computed as the net gas energy burden minus

[3] The HHS poverty guidelines are used as an eligibility criterion by a number of federal programs, including the Low Income Home Energy Assistance Program. New Jersey has set the state LIHEAP income eligibility standard at 175 percent of the HHS poverty guideline. The USF income standard is tied to the LIHEAP standard by BPU decision.

[4] In October 2003, FY 2003 Lifeline recipients were screened for USF. Since that time, Lifeline recipients are only screened for USF if they apply for HEA through Food Stamps or through the local intake sites.

the affordable gas bill. A household is eligible for a USF benefit if the computed benefit is greater than $0.

g. Maximum annual benefit – The maximum annual combined electric and gas USF benefit is $1,800 per year. A household with a higher computed benefit is capped at $1,800.

h. Monthly USF Electric / Gas Benefit – The monthly benefit is computed by dividing the annual benefit by 12. If the monthly benefit is less than $5, the benefit is set at $5.

4. Communication – On a monthly basis, OIT sends each utility a list of customers who were determined to be eligible for a USF benefit.

5. Monthly Credit – Each month, the customer is assigned the USF credit. That amount is applied to the customer's account irrespective of the customer's other payment activity.

6. USF Reenrollment/Reestimation – To maintain USF benefits, the customer is expected to apply for USF each year. Each year, the customer is rescreened to determine USF program eligibility.

7. Fresh Start Enrollment – For any first time USF recipient, the utility checks the customer's balance. If the customer has a balance greater than $60, the customer's balance is transferred to the utility's Fresh Start account.

8. Fresh State Credits - A portion of the balance is eligible to be retired each time the customer makes a payment on his or her current balance. Some utilities apply those credits monthly, while others apply them quarterly.

9. Fresh Start Reconciliation – After 15 months, any Fresh Start amounts that are not retired according to forgiveness guidelines are restored to the customer's account as an outstanding balance.

10. Fresh Start Reenrollment – The Fresh Start program is a one-time program benefit. The customer is not allowed to reenroll in the Fresh Start program.

The USF Program is design to assist the customer in the following ways.

? Affordable Energy Bills – The customer is asked to pay an electric and/or gas bill that, in most cases, is equal to 3 percent of the customer's income. The program considers that to be an affordable energy bill.

? Arrearage Retirement – The customer has the opportunity to retire preprogram arrearages by simply paying what the program considers to be an affordable current energy bill for 12 months. To ensure that the customer has an opportunity to completely retire outstanding balances, a three-month grace period is allowed.

? Program Continuity – The customer will continue to receive program benefits as long as he or she completes an annual application, continues to be income eligible, and continues to have an energy burden net of assistance payments that exceeds 3 percent of income.

The NJ USF program is considered to have the following characteristics.

? Program Integration – The USF program is completely integrated with the HEA program. It is partially integrated with the Lifeline Program in that it considers receipt of Lifeline benefits in the benefit computation procedures.

? Percent of Income – The USF benefit is designed to limit the customer's utility bill to a fixed percent of income.

? 6 Percent Affordability Standard – The USF program sets an affordability standard of 6 percent of income for total residential energy use (i.e., electric and gas).

? All Eligible Customers – The USF program is available to all customers who meet the eligibility standards.

? Fixed Credit – The USF program assigns the customer a fixed monthly credit.

? 12-Month Benefit Period – The USF program furnishes benefits for 12 months.

? Income Certification – A customer must furnish proof of income to certify that household income is at or below the maximum income standard.

? 12-Month Noncontributory Arrearage Forgiveness – The program allows a customer to retire preprogram arrearages in 12 months by making payments on current bills.

Each of these characteristics has an impact on program operations and, potentially, on program effectiveness. Later in this section, we compare and contrast the NJ USF program to programs implemented in other states and discuss these issues in depth.

B. New Jersey Energy Assistance Programs

Prior to the implementation of the USF program, a number of existing programs helped low-income households with energy bills. As part of the USF program design, a direct linkage was established between some of the existing energy assistance programs and the USF program. In this section, we review the other New Jersey energy assistance programs and identify the linkage to USF.

Two major programs furnish direct assistance to low-income households to help pay their energy bills - HEA and Lifeline.

- HEA – HEA is a federally funded program (LIHEAP) that is administered by the New Jersey Department of Human Services. In 2004, the NJ HEA program received about $72 million in funding and assisted 156,000 households with home energy bills (i.e., home heating and home cooling). HEA furnishes benefits to low-income households in three different ways.
  - Regular HEA grants – During the HEA enrollment season (November 1 to March 31), households can apply for HEA grants to a county social services agency as part of a food stamp application or to a designated HEA intake site.
  - Emergency HEA grants – Households that have a utility shutoff notice or that have run out of a bulk fuel and do not have the funds to make a purchase can apply for HEA emergency grants at a designated HEA intake site.
  - Medically Necessary Cooling grants – Households that receive a doctor's certification that cooling is medically necessary qualify for a cooling grant.
- Lifeline – Furnishes a $225 benefit to elderly and disabled households for electric and natural gas bills. In 2004, the Lifeline program distributed about $72 million to 319,000 households. The program was authorized in 1979 and was originally funded from Casino revenues. In 2003, program funding was transitioned to the System Benefits Charge (SBC) paid by electric and natural gas ratepayers.

The USF program takes HEA and Lifeline grants into account when assessing the need for USF benefits. However, there are limits to the program integration.

- Emergency HEA grants – The USF program does not consider the potential for receipt of emergency HEA grants when computing the household's net energy burden.
- Cooling grants – The USF program does not consider the potential for HEA cooling grants when computing the household's net energy burden.
- Off-Season USF Applications – If a household applies for USF when HEA enrollment is closed (April 1 to October 31), the USF program does not consider potential HEA grants when computing the household's net energy burden.

Some low-income households also receive direct assistance with energy bills through other programs. A portion of Section 8 housing subsidies help to pay energy bills. Through the TANF program, some households receive emergency assistance to help pay energy bills. The New Jersey Natural Gas Gift of Warmth Fuel Fund also assists low-income customers of New Jersey Natural Gas. Currently, receipt of energy assistance from these programs does not have any impact on a household's eligibility for a USF grant.

Low-income households also receive assistance in making their homes more energy efficient from two programs. The Weatherization Assistance Program receives about $5 million in

funding from the U.S. Department of Energy and about $3 million of the LIHEAP funding for use in weatherizing residences of low-income households. The NJ Comfort Partners Program is a ratepayer-funded program that spends about $15 million annually to increase the efficiency of low-income residences.

Currently, there is no formal linkage between the WAP and Comfort Partners Program and the USF program. The utilities have implemented guidelines for targeting USF customers for Comfort Partners outreach. However, there is no requirement that a customer receiving USF must participate in the Comfort Partners or WAP programs.

C. Energy Needs of Low-Income Households

The USF program has established 6 percent of income as an affordable share of income for a household's residential energy bills. A review of energy burden statistics is useful in two ways. First, it helps to establish a context for selection of the 6 percent target. Second, it helps to demonstrate how many low-income households exceed the established affordability target.

The *LIHEAP Home Energy Notebook* is published annually by the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services, Division of Energy Assistance. This report furnishes information on the energy needs of low-income households and the extent to which the Federal LIHEAP program is able to address those needs.

The most recent report available is for Federal Fiscal Year 2003. The report furnishes the following information at the national level.

- The average household spent $1,527 for residential energy and had a median energy burden of 3.4 percent of income.

- The average low-income household spent $1,304 for residential energy and had a median energy burden of 8.0 percent of income (i.e., nationally, 50 percent of low-income households had a gross energy burden that exceeded 8 percent of income).

- About 6.6 million low-income households spend more than 15 percent of income on residential energy.

- In FY 2002, the federal LIHEAP program served about 13 percent of households that were income eligible for LIHEAP at the federal maximum standard.

Some of these statistics were available for households in the Northeast Census Region. This region includes New Jersey.

- In the Northeast Region, the average household spent $1,846 for residential energy and had a median energy burden of 3.0 percent of income.

- In the Northeast Region, the average low-income household spent $1,543 for residential energy and had a median energy burden of 9.0 percent of income.

In addition, the report furnished the following estimates of the LIHEAP eligible population for New Jersey.

- If New Jersey used the Federal LIHEAP Maximum Income Standard, it was estimated that 1,056,018 households were income eligible for LIHEAP for the years 2002 to 2004.

- Using the state standard of 175 percent of poverty, it was estimated that 644,130 households were income eligible for LIHEAP for the years 2002 to 2004.

In addition to the *LIHEAP Home Energy Notebook*, there are other sources of information on the energy needs of low-income households in New Jersey. The 2000 Census long form gathered information on residential energy expenditures for households in New Jersey. Using microsimulation procedures (see Appendix A), we aged those data to 2004 to develop estimates of electric and natural gas energy burden for New Jersey households. Key findings from that analysis include:

- About 646,000 New Jersey households are income-eligible for the USF program (i.e., have annual income less than or equal to 175 percent of poverty).

- In 2004, the average (mean) electric bill for income-eligible households was $871.

- The median electric burden for income-eligible households was 5.2 percent of income; 145,000 households had an electric burden of 10 percent or more.

- In 2004, the average (mean) natural gas bill for income-eligible households was $1,172.

- The median natural gas burden for income-eligible households was 7.1 percent of income; 138,000 households had a natural gas burden of 10 percent or more.

These statistics demonstrate that many low-income households in New Jersey must use a large share of their income to maintain electric and gas service.

D. Comparison of NJ USF Program to Other Ratepayer-Funded Programs

A number of other states have implemented ratepayer-funded energy assistance programs. Some of the programs are similar to the NJ USF program, while others are quite different. In this section, we compare and contrast the USF program with some of those programs.

1. Program Integration

The NJ USF program is directly integrated with the NJ HEA program. The programs utilize a joint application, and the size of a household's HEA benefit has a direct impact on the size of a household's USF benefit.

Some other states also have integrated their ratepayer-funded programs with their HEA program.

- In Maryland, both the LIHEAP program (MEAP) and the Electric Universal Service Program (EUSP) are operated by the state Office of Home Energy Programs. However, receipt of electric MEAP benefits are not yet integrated into a household's EUSP benefit calculation. [The 2004 EUSP report suggests that such integration is planned.]

- In Wisconsin, the state LIHEAP office receives funding from the ratepayer-funded systems benefit charge. The funds are used to make grants to households for a nonheating electric benefit.

In other states, the ratepayer-funded programs are not integrated with the LIHEAP program. For example, in Pennsylvania, each utility operates its own low-income payment assistance program. In computing benefits, some programs net out the customer's expected LIHEAP grant. If the customer fails to apply for that LIHEAP grant, the customer has a much larger net energy burden than the program target.

In general, coordination between LIHEAP and a ratepayer-funded energy assistance program is preferred since coordination helps to ensure that a customer pays the target percent of income. If the ratepayer program ignores LIHEAP benefits, customers who receive LIHEAP will pay considerably less than the target percent of income. If the ratepayer program assumes that LIHEAP benefits will be received, customers who fail to apply for LIHEAP will pay considerably more than the target percent of income.

2. Percent of Income

Many ratepayer funded programs attempt to reduce a customer's energy bill to a target percent of income. States with such programs include Maryland, Ohio, and New Hampshire. In addition, most of the programs implemented by Pennsylvania utilities are percent-of-income programs.

Some ratepayer-funded programs are rate discount programs. Rate discount programs give customers a percentage discount on their electric and/or gas bills. For example, the California CARE program furnishes a 20 percent discount on electric and gas rates for participating customers. The PECO CAP program furnishes rate discounts that vary from 25 percent to 85 percent depending on the circumstances of the individual customer.

A percent-of-income approach is generally thought to do a better job of targeting energy assistance benefits. Consider two households with an annual energy bill of $1,000. With a percent-of-income approach, a household with an annual income of $5,000 will get a higher benefit than a household with an annual income of $10,000. However, with a flat rate discount program, both households would receive the same benefit. With a 6 percent of income standard, both households in the example would end up paying 6 percent of income for energy. However, with a 50 percent rate discount program, both households would have their energy bill reduced to $500. The household with annual income of $5,000 would have their energy burden reduced to 10 percent, while the household with annual income of $10,000 would have their energy burden reduced to 5 percent.

3. Affordability Standard

The NJ USF program has set a 6 percent energy affordability standard, 3 percent for nonheating electric accounts and 3 percent for gas accounts. The 6 percent affordability standard is about twice the median energy burden for all households in the Northeast Region.

Among states that use a percent-of-income approach to their ratepayer-funded energy assistance programs, the range for the affordability standard is quite wide.

- Maryland EUSP – 3 percent of income for electric usage.
- New Hampshire – 4 percent of income for electric usage.
- PGW – 8, 9, or 10 percent of income for gas usage, depending on income level.
- Ohio – 10 percent of income for gas usage and 5 percent of income for electric usage (15 percent of income for electric heating usage).

There is no national standard of energy affordability. New Jersey's program is one of the most aggressive in the country.

4. All Eligible Customers

The NJ USF program is available to any customer that meets the eligibility criteria. Some ratepayer-funded low-income programs are available only to those customers who are "payment-troubled" (i.e., have a certain level of arrears and/or have broken previous deferred payment agreements). In such programs, payment problems are treated as an "indicator of need" for assistance. Some advocates suggest that programs that are restricted to payment-troubled customers unfairly penalize households that do without food, medicine, and other necessities to pay their energy bills.

5. Fixed Credit Program

There are two different ways to implement a percent-of-income payment plan.

- Fixed Credit – Under the fixed credit plan, the customer's annual energy bill is estimated. The customer is assigned a fixed monthly credit that will limit energy bills to the target percent of income for the year if the customer uses the expected amount.

- Fixed Payment – Under the fixed payment plan, the customer's monthly payment is set by multiplying the affordability standard times the customer's monthly income. Each month, the utility applies a variable credit to make up for the difference between the actual bill and the customer's fixed payment.

The fixed credit program is easier for a utility to implement and makes program expenditures more predictable. However, the customer is at risk for any changes in usage and/or energy prices.

The fixed payment program is more complex for a utility to implement since the billing system needs to compute the program credit each month; this results in greater risk to the utility and/or ratepayer. However, the fixed payment program protects the customer against changes in weather, prices, and other changes in energy bills.

In addition to the NJ program, the Maryland EUSP program is a fixed credit plan. Most other percent-of-income plans use the fixed payment methodology.

6. 12-Month Benefit Period

The NJ USF program makes benefits available to customers for 12 months, as long as the household remains a customer of a New Jersey utility. Some other programs make program participation contingent on bill payment.

The NJ USF approach has the advantage of being easier to implement. The utility sets up the system so that the household receives a monthly credit for twelve months. Regular collection procedures can then be implemented for any customer who does not pay the remaining balance.

In programs with contingent participation, there can be considerable administrative expense in identifying customers who are behind on payments, suspending them from the program, and reenrolling them in the program. However, the threat of suspension of program benefits may encourage some customers to make payments.

7. Annual Income Certification

The NJ USF program requires customers to reapply for the program each year and to furnish documentation of income. Application and income certification has some

program cost. In addition, it represents a barrier to participation. However, since household income changes over time, a failure to certify income annually could result in participation by ineligible households.

The California CARE program allows customers to self-certify for the program and does not require them to recertify. As a result, the CARE program has a very high participation rate (the number of participants is 75 percent of the estimated number of eligible customers). However, there is no estimate of the current number of CARE participants that are currently income eligible for the program.

8. One-Time 12-Month Noncontributory Arrearage Forgiveness

The Fresh Start program grants forgiveness for preprogram arrears. The forgiveness is contingent on payment of current bills for a 12-month period. The customer does not have to make any payment on the preprogram balance. The customer is eligible for this forgiveness only once.

Many other programs grant customers forgiveness of preprogram arrears. Some programs forgive arrears over 12 months, while others require payment for 24 months or 36 months to achieve full forgiveness. Many programs require customers to make some contribution to preprogram arrears. A common approach is to ask the program participant to pay 50 percent of the preprogram arrears over a 24-month period (i.e., about 2 percent of preprogram arrears per month). Some other programs also allow the customer to have preprogram arrearages forgiveness each time the customer enters the program.

There has never been a systematic study of preprogram repayment alternatives that give us information about the relative performance of the alternatives. The New Jersey program is easier to implement than many others. It also gives the customer a strong incentive to develop good payment habits during the first program year. However, it does not furnish a remediation alternative for customers that have used their one Fresh Start opportunity.

E. Summary of Findings

In this section of the report, we document the NJ USF program design and characterize it in standard terms. The basic benefit program can be described as a fixed credit percent-of-income benefit that requires annual recertification. The affordability standard is 6 percent of income. The Fresh Start program is a 12-month noncontributory arrearage forgiveness plan.

We documented the ways that the USF program is integrated and/or coordinated with other NJ energy assistance programs. USF is integrated with the HEA program and its benefits are coordinated with those of the Lifeline program. USF is not coordinated with any of the other energy assistance programs available to low-income households. Some USF

recipients have been targeted for the Comfort Partners program. However, there are no explicit usage reduction program participation requirements for USF recipients.

The NJ USF program is one of many ratepayer-funded energy assistance programs. It has one of the lowest affordability standards and one of the most aggressive arrearage forgiveness programs. A number of program design elements are easier to implement and furnish more predictable program budgets than those of programs in other states. However, the program's fixed credit approach puts program participants at risk for changes in weather, prices, and usage.

III. Program Targeting

The first set of evaluation questions posed by the BPU relates to program targeting and ask:

- ? What is the size and composition of the population that is eligible for benefits under USF and Fresh Start?
- ? What percentage of the eligible population is receiving benefits from the USF program?
- ? Explain whether or not the program is serving the customers with the greatest need.

To address these questions, we have developed estimates of the eligible and recipient population from a range of data sources. These data sources allow us to characterize the eligible and recipient populations, and thereby make estimates of program participation rates for the overall low-income population as well as for important population subgroups.

A. Methodology for Estimating the Population Eligible for USF Benefits

To develop estimates of the USF-eligible population, we developed a microsimulation database of the population of New Jersey households using the following procedures.

1. NJ PUMS Sample – We started with the sample of New Jersey households available from the 2000 Census Public Use Microdata Sample (PUMS). This is a 5 percent sample of NJ households and includes all responses to the 2000 Census long form questionnaire. That questionnaire has self-reported information on income, demographics, and energy bills.
2. 2004 CPS ASEC – We used the 2004 Current Population Survey Annual Social and Economic Supplement to update income and population counts to 2004.
3. 2004 Energy Prices – We used information furnished by the seven New Jersey IOUs to update electric and gas prices.

The final database contains updated information for about 150,000 NJ households that can be used to make estimates of the population that is eligible for USF benefits.

B. Estimates of the USF Income-Eligible Population

The first eligibility standard for the USF program is income. Households with income at or below 175 percent of the federal poverty guidelines are income eligible for the USF program. Using the microsimulation database, we can to furnish estimates of the income-eligible population.

Tables 3-1 through 3-3 furnish basic information on the population of households that are income eligible for the NJ USF program. Table 3-1 shows that 20 percent of New Jersey households are income eligible for the USF program (i.e., have income at or below 175 percent of the poverty guideline). Table 3-2 shows the distribution of households by poverty group, while Table 3-3 shows the distribution of households by income group. Table 3-2 shows that over 270,000 NJ households have income at or below the federal poverty guideline. Table 3-3 shows that about 228,000 NJ households have annual income of less than $10,000.

Table 3-1
Households Income Eligible for USF (2004)

Poverty Group	Number of Households	Percent of Households
Income At or Below 175%	646,192	20%
Income Above 175%	2,586,930	80%
ALL NJ HOUSEHOLDS	3,233,122	100%

Table 3-2
Poverty Levels for Income-Eligible Households (2004)

Poverty Group	Number of Households	Percent of Households
Income At or Below 100%	271,755	42%
Income 100% to 150%	250,518	39%
Income Above 150%	123,919	19%
ALL INCOME ELIGIBLE	646,192	100%

Table 3-3
Income Distribution for Income-Eligible Households (2004)

Income Group	Number of Households	Percent of Households
$0 to less than $10,000	228,054	35%
$10,000 to less than $20,000	292,918	45%
$20,000 to less than $30,000	91,199	14%
$30,000 or more	34,020	5%
ALL INCOME ELIGIBLE	646,192	100%

Using the microsimulation database, we also were able to develop information about the energy bills and energy burden for income-eligible households. Tables 3-4 through 3-7 furnish information on electric and gas bills and burden for income-eligible households.

Tables 3-4 and 3-5 show that over 150,000 income-eligible households had an electric bill in 2004 of more than $1,000, and almost 400,000 income-eligible households had an electric burden more than 3 percent of income. The median electric burden was 5.2 percent.

Table 3-4
Electric Bills for Income-Eligible Households (2004)

Electric Bill	Number of Households	Percent of Households
No electric bill	98,206	15%
$1 to less than $500	214,329	34%
$500 to less than $1,000	180,629	28%
$1,000 or more	153,028	24%
ALL INCOME ELIGIBLE	646,192	100%

Table 3-5
Electric Burden for Income-Eligible Households (2004)

Electric Burden	Number of Households	Percent of Households
No electric bill	98,206	15%
0% to less than 3%	150,025	23%
3% to less than 5%	114,048	18%
5% to less than 10%	139,138	22%
10% or more	144,775	23%
ALL INCOME ELIGIBLE	646,192	100%

Tables 3-6 and 3-7 show that almost 180,000 income-eligible households had a gas bill in 2004 of more than $1,000; over 280,000 income-eligible households has a gas energy burden greater than 3 percent of income. The median gas burden for households that had a gas bill was 7.1 percent of income.

Table 3-6
Gas Bills for Income-Eligible Households (2004)

Gas Bill	Number of Households	Percent of Households
No gas bill	273,761	42%
$1 to less than $500	107,439	17%
$500 to less than $1,000	86,089	14%
$1,000 or more	178,903	28%
ALL INCOME ELIGIBLE	646,192	100%

Table 3-7
Gas Burden for Income-Eligible Households (2004)

Gas Burden	Number of Households	Percent of Households
No gas bill	273,761	42%
0% to less than 3%	88,965	14%
3% to less than 5%	50,354	8%
5% to less than 10%	95,551	15%
10% or more	137,560	22%
ALL INCOME ELIGIBLE	646,192	100%

C. Estimates of Program Eligibility for HEA, Lifeline, and USF

USF program benefits are based on net energy burden (i.e., energy burden net of HEA and Lifeline assistance benefits). The USF eligibility standard is that a household must have a net electric bill that is greater than 3 percent of income (6 percent for electric heaters) and/or a net natural gas bill that is greater than 3 percent of income. Using the microsimulation database, we were able to estimate the number of households that met these criteria using the following procedures.

1. Electric Bill – We assessed whether a household had an electric bill.

2. LIHEAP Benefit – If the household had electric main heat, we used the LIHEAP benefit matrix to estimate their LIHEAP benefit.

3. Lifeline Benefit – If the household was elderly or disabled, we estimated their Lifeline benefit.

4. Net Electric Bill – We computed their net electric bill by subtracting applicable LIHEAP and Lifeline benefits.

5. Affordable Electric Bill – We computed their affordable electric bill by multiplying their income by 3 percent (6 percent for electric heaters).

6. USF Benefit – We estimated their USF benefit by subtracting their affordable electric bill from their net electric bill.

We repeated the same process for each household's gas bills.

After applying these procedures, we had a database that furnished information on the amount of USF, HEA, and Lifeline benefits for which a household was eligible. [Note: This

analysis focuses on households with electric and/or gas bills. We do not model HEA and Lifeline benefits available to households with electric and/or heat included in rent.]

Tables 3-8 through 3-10 furnish information on the number of USF income-eligible households that are eligible for HEA, Lifeline, and USF. Table 3-8 shows that over 360,000 electric and gas heating customers are currently eligible for HEA heating benefits. Table 3-9 shows that over 300,000 households that are income eligible for USF are also eligible for Lifeline benefits.[5]

Table 3-8
Eligibility for HEA Heating Benefits (2004)

Benefit Type	Number of Households	Percent of Households
Electric HEA	80,840	13%
Natural Gas HEA	282,968	44%
Other HEA	88,923	14%
Heat in Rent	193,461	30%
ALL INCOME ELIGIBLE	646,192	100%

Table 3-9
Eligibility for Lifeline Benefits (2004)

Benefit Type	Number of Households	Percent of Households
Electric Only	109,395	17%
Natural Gas Only	3,927	1%
Gas and Electric	196,658	30%
Not Elderly or Disabled	244,643	38%
No Electric or Gas Bill	91,570	14%
ALL INCOME ELIGIBLE	646,192	100%

Table 3-10
Eligibility for USF Benefits (2004)

Benefit Type	Number of Households	Percent of Households
Electric USF Only	171,632	27%

[5] The actual number of Lifeline recipients is about 315,000 per year. However, some of those recipients have incomes that are above the USF eligibility standard. The estimate is overstated. We used Census disability questions as a proxy for Lifeline eligibility. However, a household must receive Social Security disability or SSI disability to be eligible for a Lifeline benefit.

Benefit Type	Number of Households	Percent of Households
Natural Gas USF Only	41,222	6%
Electric and Gas USF	148,082	23%
Net Energy Burden Under 3%	193,687	30%
No Electric or Gas Bill	91,570	14%
ALL INCOME ELIGIBLE	646,192	100%

Table 3-10 shows that over half (56 percent) of the income-eligible households are eligible for USF program benefits. About 320,000 households are eligible for electric USF benefits and about 190,000 household are eligible for gas USF benefits. A total of over 360,000 households are eligible for the USF program.

Using the microsimulation database, we are able to estimate the expected size of the USF benefits. Tables 3-11 through 3-13 furnish information on the distribution of electric USF benefits, gas USF benefits, and combined USF benefits for which households are eligible.

Table 3-11 shows that about one-third of households eligible for an electric USF benefit are eligible for less than $250, while about 7 percent have a USF need that exceeds the $1,800 cap. The median electric USF benefit for which households are eligible is $445.

Table 3-11
Distribution of Electric USF Benefits (2004)

Benefit Type	Number of Households	Percent of Households
$1 to less than $250	101,338	32%
$250 to less than $500	73,266	23%
$500 to less than $1,000	80,243	25%
$1,000 to less than $1,800	41,901	13%
$1,800 (cap)	22,964	7%
ELIGIBLE FOR ELECTRIC USF	319,713	100%

Table 3-12 shows that about one-third of households eligible for a gas USF benefit qualify for benefits between $500 and $1,000. Almost 20 percent have a USF need that exceeds the $1,800 cap. The median gas USF benefit for which households are eligible is $672.

Table 3-12
Distribution of Gas USF Benefits (2004)

Benefit Type	Number of Households	Percent of Households
$1 to less than $250	36,183	19%
$250 to less than $500	34,235	18%

Benefit Type	Number of Households	Percent of Households
$500 to less than $1,000	58,371	31%
$1,000 to less than $1,800	34,833	18%
$1,800 (cap)	25,682	14%
ELIGIBLE FOR GAS USF	189,304	100%

Table 3-13 shows that almost 20 percent of all households that are eligible for a USF benefit would have their USF benefit limited by the USF $1,800 cap. The median combined USF benefit for which households are eligible is $701.

Table 3-13
Distribution of Combined USF Benefits (2004)

Benefit Type	Number of Households	Percent of Households
$1 to less than $250	78,783	22%
$250 to less than $500	62,443	17%
$500 to less than $1,000	83,078	23%
$1,000 to less than $1,800	70,492	19%
$1,800 (cap)	66,140	18%
ELIGIBLE FOR USF BENEFITS	360,935	100%

D. Aggregate Need for HEA, Lifeline, and USF for Income-Eligible Households

Using the microsimulation database, we can estimate the aggregate electric and gas bills for income-eligible households and can show how the aggregate bill would be paid if all eligible households participated in HEA, Lifeline, and USF.

Table 3-14 furnishes information on the aggregate electric bills for income-eligible households. About 548,000 households have an electric bill. The aggregate amount of their bills is about $477 million. Of that, about $215 million is considered to be affordable (i.e., is less than 3 percent of income). The remaining $262 million is considered to be unaffordable. Based on program guidelines, the $262 million would be paid by $215 million in USF benefits and $47 million in HEA and Lifeline benefits. Table 3-14 shows that households are eligible for about $87 million in HEA and Lifeline benefits. However, $40 million of those benefits actually reduces net electric energy burden for households below the USF standard. The table also shows that, while total need for USF is about $215 million, about $42 million will not be met because of the $1,800 cap on USF benefits.

Table 3-14
Aggregate Statistics for Electric (2004)

Electric Bill Category	Number of Households	Aggregate Bills
Aggregate Electric Bills	547,986	$477,023,688
Affordable Share	547,986	$214,516,930
Estimated Need	381,575	$262,506,757
Assistance Category	**Number of Households**	**Aggregate Benefits**
Electric HEA	80,848	$40,377,841
Electric Lifeline	306,052	$46,639,416
Electric USF (no limit)	319,713	$215,510,448
Electric USF (capped)	319,713	$173,762,714

Table 3-15 furnishes information on the aggregate gas bills for income-eligible households. About 372,000 households have a gas bill. The aggregate amount of their bills is about $436 million. Of that, about $112 million is considered to be affordable (i.e., is less than 3 percent of income. The remaining $265 million is considered to be unaffordable. Based on program guidelines, the $265 million would be paid by $182 million in USF benefits and $83 million in HEA and Lifeline benefits. Table 3-15 shows that households are eligible for about $114 million in HEA and Lifeline benefits. However, $31 million of those benefits actually reduce net gas energy burden for households below the USF standard. The table also shows that, while total need for USF is about $182 million, about $49 million will not be met because of the $1,800 cap on USF benefits.

Table 3-15
Aggregate Statistics for Gas (2004)

Electric Bill Category	Number of Households	Aggregate Bills
Aggregate Gas Bills	372,430	$436,449,611
Affordable Share	372,430	$112,226,469
Estimated Need	235,316	$265,029,247
Assistance Category	**Number of Households**	**Aggregate Benefits**
Gas HEA	282,968	$90,634,356
Gas Lifeline	200,584	$23,105,800
Gas USF (no limit)	189,304	$182,192,247
Gas USF (capped)	189,304	$133,296,335

The statistics in Tables 3-14 and 3-15 present an important challenge to the BPU. Our simulation estimates that full participation in the HEA, Lifeline, and USF programs by households that are USF income eligible would require $131 million in HEA benefits, $70 million in Lifeline benefits, and $307 million in USF benefits.

For FY 2005, the HEA program received about $85 million from the Federal government. In addition to funding benefits for households that heat with electric and natural gas, that funding pays for program administration, HEA heating benefits for households with other heating fuels, emergency HEA benefits, and medically necessary cooling benefits. For FY 2005, the Lifeline program furnished about $72 million in benefits to elderly and disabled households. However, some of those funds were distributed to households that are not income eligible for USF. Finally, the FY 2005 budget for USF was about $120 million, considerably less than the $307 million that would be required to serve all of the eligible customers.

E. Characteristics of the Population Eligible for USF Benefits

Using the microsimulation database, we can characterize the population that is eligible for USF benefits. Tables 3-16 to 3-22 furnish information on the characteristics of these households. The statistics for eligible households can be compared to the statistics for recipient households to assess whether the program is targeting the households in the greatest need.

Tables 3-16 and 3-17 show the income distribution for eligible households. Almost half of the households eligible for USF benefits have incomes at or below 100 percent of the poverty guidelines; three-fourths have income less than $20,000. Only 5 percent of the households eligible for USF benefits have annual income greater than $30,000.

Table 3-16
Poverty Levels for Households Eligible for USF Benefits (2004)

Poverty Group	Number of Households	Percent of Households
Income At or Below 100%	163,871	45%
Income Over 100% to 150%	134,062	37%
Income Above 150%	63,003	18%
ALL INCOME ELIGIBLE	360,935	100%

Table 3-17
Income Distribution for Households Eligible for USF Benefits (2004)

Income Group	Number of Households	Percent of Households
$0 to less than $10,000	133,156	37%

Income Group	Number of Households	Percent of Households
$10,000 to less than $20,000	160,345	44%
$20,000 to less than $30,000	49,939	14%
$30,000 or more	17,495	5%
ALL INCOME ELIGIBLE	360,935	100%

Tables 3-18 and 3-19 furnish information on the energy need of households eligible for USF benefits. More than one-fourth of the households eligible for electric USF benefits have a gross electric burden (i.e., annual electric bill divided by annual income) of more than 15 percent of income. The median electric burden for USF-eligible households is about 9 percent of income. Almost 40 percent of households eligible for gas USF benefits have a gross gas burden of more than 15 percent of income. The median gas burden for USF-eligible households is about 12 percent of income.

Table 3-18
Gross Electric Burden for Households Eligible for Electric USF Benefits (2004)

Electric Burden	Number of Households	Percent of Households
3% to less than 5%	67,713	21%
5% to less than 10%	118,240	37%
10% to less than 15%	45,430	14%
15% or more	88,331	28%
ALL ELIGIBLE FOR USF	319,713	100%

Table 3-19
Gross Gas Burden Households Eligible for Gas USF Benefits (2004)

Gas Burden	Number of Households	Percent of Households
3% to less than 5%	10,783	6%
5% to less than 10%	66,324	35%
10% to less than 15%	42,727	23%
15% or more	69,469	37%
ALL ELIGIBLE FOR USF	189,304	100%

Tables 3-20 through 3-22 furnish information on the demographic characteristics of households eligible for USF benefits. Table 3-20 furnishes information on the vulnerability group for eligible households. Households with members who are elderly (60 or older), disabled, or young (5 or younger) are generally considered to be vulnerable. About 43

percent of households eligible for a USF benefit had an elderly head or spouse, with another 2 percent of the households having an elderly person living in the house who is not the head of household. About 21 percent of the eligible households have a disabled household member, and about 18 percent have a young child.

Table 3-20
Vulnerability Group for Households Eligible for USF Benefits (2004)

Vulnerability Group	Number of Households	Percent of Households
Elderly Head or Spouse (60 or older)	156,303	43%
Other Elderly Person (60 or older)	7,114	2%
Nonelderly Disabled Head or Spouse	68,384	18%
Other nonelderly disabled	10,437	3%
Young Child (5 or younger)	65,341	18%
No Vulnerable Member	80,090	22%
ALL INCOME ELIGIBLE	360,935	100%

Table 3-21 furnishes information on the type of public benefit that households eligible for USF benefit receive. Less than 10 percent of households eligible for a USF benefit indicate that they receive SSI; less than 10 percent indicate that they receive public assistance. These statistics are useful because they demonstrate the potential for using public benefit programs as a way to target eligible households.

Table 3-21
Public Benefits Group for Households Eligible for USF Benefits (2004)

Public Benefits Group	Number of Households	Percent of Households
SSI	27,997	8%
Public Assistance	28,151	8%
ALL INCOME ELIGIBLE	360,935	100%

Table 3-22 furnishes information on the household size for eligible households. This table shows that about two-thirds of households eligible for a USF benefit have either one or two household members. Some analysts have argued that larger households should have a lower affordability standard (i.e., less than 3 percent of income).

Table 3-22
Household Size for Households Eligible for USF Benefits (2004)

Number of Members	Number of Households	Percent of Households
One	143,221	40%

Number of Members	Number of Households	Percent of Households
Two	83,035	23%
Three	44,850	12%
Four	41,021	11%
Five or more	48,809	14%
ALL INCOME ELIGIBLE	360,935	100%

Table 3-23 shows the primary language, and degree of language isolation, for households that are eligible for a USF benefit. A household is considered to be isolated if the primary language of the head of household is a language other than English and no member of the household age 14 or older speaks English at least "very well." About one-third of households that are eligible for a USF benefit have a primary language other than English, and about 12 percent of households that are eligible for a USF benefit are linguistically isolated.

Table 3-23
Primary Language for Households Eligible for USF Benefits (2004)

Primary Language	Number of Households	Percent of Households
English	243,851	68%
Spanish – Not Isolated	37,356	10%
Spanish – Isolated	23,786	7%
Other – Not Isolated	38,374	11%
Other – Isolated	17,568	5%
ALL INCOME ELIGIBLE	360,935	100%

F. Methodology for Estimating Characteristics of USF Recipients

The primary source of information on USF recipients is the USF/HEA database that is maintained by the New Jersey Office of Information Technology (OIT). We obtained two sets of information from OIT.

- 10 Percent Sample – We obtained a 10 percent sample of all households in the USF/HEA database in August 2005.

- Control Totals – We obtained control totals for the entire recipient population from OIT in November 2005.

These two data sources can be used to furnish information on the number of USF recipients and the characteristics of the USF recipient population.

Each utility also has information on USF recipients. We obtained billing, payment, and Fresh Start data from the utilities for each USF recipient that was part of the 10 percent sample. In addition, we obtained information on the number of USF accounts from the utilities in October 2005. The billing data will be used in Sections V and VII to examine payment compliance and program impacts. The count of current USF accounts is used in this section to discuss current program enrollment levels.

G. USF Program Participation Counts

Tables 3-24 through 3-27 furnish counts of USF program participation. Table 3-24 shows the total number of USF participants by enrollment group. Enrollment Sweeps 1 through 3 were designed to be mutually exclusive (i.e., households that had already been enrolled in a prior USF enrollment sweep were not included in a later enrollment sweep). During FY 2005 (November 2004 through October 2005), households from one of the Enrollment Sweeps were allowed to reenroll in USF. However, the statistics in Table 3-24 furnish a count of new enrollees only. [Note: The data for Enrollment Sweep 1 includes households that are labeled "Lifeline Only."] To date, 56 percent of all participants were enrolled in the first Enrollment Sweep in October 2003. About 30 percent of participants were first enrolled during FY 2005.

Table 3-24
USF Participant Enrollment Group (10/3 to 11/05)

Enrollment Group	Number of Households	Percent of Households
Enrollment Sweep 1 – October 2003	99,687	56%
Enrollment Sweep 2 – April 2004	14,646	8%
Enrollment Sweep 3 – September 2004	9,423	5%
FY 2005 Enrollment	52,771	30%
ALL USF PARITICIPANTS	176,527	100%

Table 3-25 furnishes information on the enrollment group for USF Electric benefits. Over three-fourths of USF participants have electric benefits (139,119 of 176,527). Almost 60 percent of electric USF participants first received them in October 2003.

Table 3-25
Electric USF Participant Enrollment Group (October 2003 to November 2005)

Enrollment Group	Number of Households	Percent of Households
Enrollment Sweep 1 – October 2003	81,854	59%

Enrollment Group	Number of Households	Percent of Households
Enrollment Sweep 2 – April 2004	11,015	8%
Enrollment Sweep 3 – September 2004	7,586	5%
FY 2005 Enrollment	38,664	28%
ELECTRIC USF	139,119	100%

Table 3-26 furnishes information on the enrollment group for USF Gas benefits. About 56 percent of USF participants have gas benefits (99,534 of 176,707). About half of gas USF participants first received them in October 2003.

Table 3-26
Gas USF Participant Enrollment Group (October 2003 to November 2005)

Enrollment Group	Number of Households	Percent of Households
Enrollment Sweep 1 – October 2003	51,425	52%
Enrollment Sweep 2 – April 2004	9,972	10%
Enrollment Sweep 3 – September 2004	5,204	5%
FY 2005 Enrollment	32,933	33%
GAS USF	99,534	100%

Table 3-27 furnishes information on the type of benefits for USF program participants. Over 40 percent of participants have electric benefits only, over one-third of participants have electric and gas benefits, and about one in five has gas benefits only.

Table 3-27
USF Participation Type (October 2003 to November 2005)

Participation Type	Number of Households	Percent of Households
Electric Only	77,173	44%
Electric and Gas	61,946	35%
Gas Only	37,588	21%
ALL USF PARITICIPANTS	176,707	100%

Tables 3-28 and 3-29 furnish information on the companies with which electric and gas USF participants have their accounts. PSE&G has about two-thirds of the electric USF customers and 60 percent of the gas USF customers. JCP&L, Atlantic City Electric, NJNG, and SJG each have between 15 and 20 percent of program participants for their respective fuels.

Elizabethtown has slightly less than 10 percent of gas participants, while Rockland has less than 1 percent of electric participants.

Table 3-28
Electric USF Participant Company (October 2003 to November 2005)

Company	Number of Households	Percent of Households
PSE&G	91,062	65%
JCP&L	25,524	19%
Atlantic City Electric	21,898	16%
Rockland	635	<1%
GAS USF	139,119	100%

Table 3-29
Gas USF Participant Company (October 2003 to November 2005)

Company	Number of Households	Percent of Households
PSE&G	59,828	60%
NJNG	14,668	15%
Elizabethtown	8,714	9%
SJG	16,324	16%
GAS USF	99,534	100%

H. USF Program Recipient Characteristics

The tables in this section were developed from the 10 percent sample of USF participants that was furnished to APPRISE by NJ OIT in August 2005. To prepare this data file, OIT merged information from two different data systems. We have found that this data file is not completely consistent with the control totals furnished by OIT. In particular, the OIT control totals report that there were 176,707 different households enrolled in the USF program, while the database we received only shows 162,940 different households. We are working to resolve this issue, but are preparing the evaluation report with the existing data.

Table 3-30 and 3-31 shows the income distribution for eligible households. Tables 3-30A and 3-30B present information on the poverty level of participants.[6] Between 49 and 54 percent of program participants are estimated to have income below the poverty guideline.

[6] One data issue is that we do not have household size for "Lifeline-only" participants, about 15 percent of the participants. We expect that most "Lifeline-only" households would have a household size of either one or two. Using a household size of one for all "Lifeline-only" households, we estimated that 49 percent of participants had a poverty level less than 100 percent of poverty. Using a household size of two, we found that 54 percent of

Table 3-30A
Poverty Levels for USF-Participant Households

Poverty Group[7]	Number of Households	Percent of Households
Income At or Below 100%	79,190	49%
Income Over 100% to 150%	52,730	32%
Income Above 150%	30,520	19%
ALL USF PARTICIPANTS	162,440	100%

Table 3-30B
Poverty Levels for USF-Participant Households

Poverty Group[8]	Number of Households	Percent of Households
Income At or Below 100%	57,890	54%
Income Over 100% to 150%	51,040	31%
Income Above 150%	23,510	14%
ALL USF PARTICIPANTS	162,440	100%

Table 3-31 shows that almost 90 percent of USF participants have annual income less than $20,000. Only about 2 percent of USF participants have annual income over $30,000. Median income for USF participants is about $12,000.

Table 3-31
Income Distribution for USF-Participant Households

Income Group	Number of Households	Percent of Households
$0 to less than $10,000	66,980	41%
$10,000 to less than $20,000	77,790	48%
$20,000 to less than $30,000	14,970	9%
$30,000 or more	3,200	2%
ALL USF PARTICIPANTS	162,940	100%

participants had a poverty level less than 100 percent of poverty. From another database, we found that 80 percent of HEA households that also received Lifeline were one-person households.

[7] A household size of one is assumed for "Lifeline Only" participants. We estimate that this table understates the number of participants with income at or below 100 percent of the poverty guideline by about 1 percent.

[8] A household size of two is assumed for "Lifeline Only" participants. We estimate that this table overstates the number of participants with income at or below 100 percent of the poverty guideline by about 3 percent.

Tables 3-32 and 3-33 furnish information on the energy need of households eligible for USF benefits. Table 3-32 shows that the largest number of USF electric participants have a gross energy burden between 5 percent and 10 percent of income. However, almost one in five has a burden over 15 percent of income. The median electric burden for USF electric participants is 8 percent of income. Among USF gas participants, almost one in three has a burden of over 15 percent of income. Only about 8 percent of USF gas participants have a burden of 3 percent to 5 percent of income. The median gas burden for USF gas participants is about 11 percent of income.

Table 3-32
Gross Electric Burden for USF Electric-Participant Households

Electric Burden	Number of Households	Percent of Households
3% to less than 5%	30,170	24%
5% to less than 10%	53,040	42%
10% to less than 15%	19,080	15%
15% or more	24,920	19%
ALL USF ELECTRIC	127,210	100%

Table 3-33
Gross Gas Burden for USF Gas-Participant Households

Gas Burden	Number of Households	Percent of Households
3% to less than 5%	7,400	8%
5% to less than 10%	35,330	37%
10% to less than 15%	21,890	23%
15% or more	30,070	32%
ALL USF GAS	94,690	100%

Tables 3-34 and 3-35 furnish information on the demographic characteristics of households eligible for USF benefits. About half of USF participants have an elderly person or young child in the household. Public assistance households are reported to be almost 20 percent of program participants.

Table 3-34
Vulnerability Group for USF-Participant Households [9]

Vulnerability Group	Number of Households	Percent of Households
Elderly Household	59,620	37%
Young Child	20,400	13%
ALL USF PARTICPANTS	162,940	100%

Table 3-35
Public Benefits Group USF-Participant Households [10]

Public Benefits Group	Number of Households	Percent of Households
SSI	18,250	11%
Public Assistance	11,350	7%
ALL USF PARTICIPANTS	162,940	100%

I. USF Program Participation Rates

By comparing the counts of households that are eligible for USF (from the microsimulation database) to those that are receiving USF (from the OIT control totals and the 10 percent sample of the USF/HEA database) we can examine the overall program participation rates for USF, as well as the participation rates for important subgroups of the population.

Table 3-36 shows that the overall USF participation rate is estimated to be 49 percent. About 44 percent of the households eligible for electric benefits have received them, while about 53 percent of the households eligible for gas benefits have received those.

Table 3-36
USF Participation Rates

USF Benefit	Eligible Households	Participants	Participation Rate
Electric Benefits	319,713	139,119	44%
Gas Benefits	189,304	99,534	53%
ALL USF PARTICPANTS	360,935	176,707	49%

[9] Table assumes that Lifeline-only households are elderly households.
[10] Table assumes that Lifeline-only households are not SSI recipients.

Tables 3-37 and 3-38 furnish information on the program participation rates by poverty group and income group. Tables 3-37A and 3-37B show that households at or below 100 percent of poverty have the highest participation rates. Table 3-38 also shows that households with the lowest income have the highest participation rate.

Table 3-37A
USF Participation Rate by Poverty Group[11]

Poverty Group	Eligible Households	Participants	Participation Rate
Income At or Below 100%	163,871	79,190	48%
Income Over 100% to 150%	134,062	52,730	39%
Income Above 150%	63,003	30,520	48%
ALL USF PARTICPANTS	360,935	162,440	45%

Table 3-37B
USF Participation Rate by Poverty Group[12]

Poverty Group	Eligible Households	Participants	Participation Rate
Income At or below 100%	163,871	87,890	54%
Income 100% to 150%	134,062	51,040	38%
Income Above 150%	63,003	23,510	37%
ALL USF PARTICPANTS	360,935	162,440	45%

Table 3-38
USF Participation Rate by Income Group

Income Group	Eligible Households	Participants	Participation Rate
Less than $10,000	133,156	66,980	50%
$10,000 to less than $20,000	160,345	77,790	49%
$20,000 to less than $30,000	49,939	14,970	30%
$30,000 or more	17,495	3,200	18%
ALL USF PARTICPANTS	360,935	162,940	45%

Tables 3-39 and 3-40 furnish information on program participation rates by electric and gas burden levels. Both Tables 3-38 and 3-39 show that the USF program appears to be less

[11] For this table, Lifeline Only households are counted as having one household member.
[12] For this table, Lifeline Only households are counted as having two household members.

likely to serve those households that have the highest energy burden level. For example, the program participation rates are over 40 percent for households with electric burdens under 15 percent of income, but less than 30 percent for households with electric burdens over 15 percent of income. Similarly, the gas USF program is estimated to serve over 50 percent of households with gas burdens under 15 percent of income, but only 43 percent of households with a gas burden of 15 percent of income or more.

One limitation to this study is that the statistics for eligible households are based on self-reported data on electric and gas bills. It is possible that those data are biased upwards and that we have overcounted the highest-burden households. However, even a significant change in the distribution of households by energy burden would merely change the pattern so that the participation rates are approximately equal across energy burden groups. To serve the households with the greatest need, one would expect that the USF program would need to serve households at the highest-burden levels at higher rates than those at lower energy burden levels.

Table 3-39
Electric USF Participation Rate by Electric Burden

Electric Burden	Eligible Households	Participants	Participation Rate
3% to less than 5%	67,713	30,170	44%
5% to less than 10%	118,240	53,040	45%
10% to less than 15%	45,430	19,080	42%
15% or more	88,331	24,920	28%
ALL USF PARTICPANTS	319,713	127,210	40%

Table 3-40
Gas USF Participation Rate by Gas Burden

Gas Burden	Eligible Households	Participants	Participation Rate
3% to less than 5%	10,783	7,400	69%
5% to less than 10%	66,324	35,333	53%
10% to less than 15%	42,727	21,890	51%
15% or more	69,469	30,070	43%
ALL USF PARTICPANTS	189,304	94,693	50%

Tables 3-41 to 3-44 furnish information on the program participation rates by various population groups. Table 3-41 shows the estimated participation rate for households with an elderly person and for households with a young child 5 or under. While about 45 percent of eligible households participate, only about 36 percent of elderly households participate in the program and only 31 percent of households with a young child participate. Table 3-41

shows the estimated participation rate for households that receive public assistance benefits. About 65 percent of eligible SSI recipients are estimated to participate in the USF, while only about 40 percent of TANF recipients do so. The findings presented in both of these tables suggest that there are some key demographic groups that might be targeted for program outreach, and that some additional efforts might need to be made to enroll TANF households in the program.

These initial statistics show that elderly households participate in the USF program at a lower rate than nonelderly households. While this is a general concern, there is one aspect of the USF program that suggests that the implications of this problem should be carefully examined. The statistics presented in Table 3-41 include over 25,000 program participants who were enrolled by screening Lifeline recipients. DHS has recommended that all households be enrolled in USF through the USF/HEA application or the Food Stamp/HEA application. However, of the over 31,538 households that were enrolled in USF through the Lifeline program in October 2003, only 6,335 of these households responded to mailings that encourage them to directly apply for the USF program. The remaining 25,203 are on the USF program only because their benefits did not expire in September 2005. If those 25,203 households were taken off the USF program, the participation rate among elderly households would fall from 36 percent to about 21 percent, less than half the overall program participation rate.

Table 3-41
USF Participation Rate by Vulnerability Group

Vulnerability Group	Eligible Households	Participants	Participation Rate
Elderly	163,417	59,620	36%
Young Child	65,341	20,400	31%
ALL USF ELIGIBLE	360,935	162,940	45%

Table 3-42
USF Participation Rate by Public Benefits Group

Benefit Group	Eligible Households	Participants	Participation Rate
SSI	27,997	18,250	65%
TANF	28,131	11,350	40%
ALL USF PARTICPANTS	360,935	181,867	50%

Table 3-43 shows the participation rate for households by language group. There is a data problem with this field in the USF/HEA database. In our sample, only about 56 percent of the participants had the field coded. However, assuming that the households with data are similar to the households without data, the table shows that additional efforts are needed to conduct outreach with households that speak a language other than English. Households that speak Spanish are less likely than those that speak English to participate in the program. However, households that speak a language other than English or Spanish have an exceptionally low participation rate. More in-depth analysis of the Census data shows that most of these households speak Indo-European languages, including Polish and Russian.

Table 3-43
USF Participation Rate by Language Group

Language Group	Eligible Households	Participants	Participation Rate
English	243,851	76,810	31%
Spanish – Not Isolated	37,356	7,980	21%
Spanish – Isolated	23,786	4,440	19%
Other	55,942	1,540	3%
ALL USF ELIGIBLE	360,935	90,770[13]	25%

Table 3-44 shows the USF participation rate by household size. This table shows that smaller households are much more likely to participate in the program than are larger households. However, we are somewhat concerned that this data element may have errors. Community-based agency staff reported that it is quite burdensome to enter all household members, since a separate screen needs to be completed for each member. It is possible that data errors have resulted in not all household members being counted or that agency staff do not have time to enter the data for every household member.

[13] Language was missing for 47,410 households.

Table 3-44
USF Participation Rate by Household Size

Household Size	Eligible Households	Participants	Participation Rate
One or Two	226,256	124,120	55%
Three	44,850	17,090	38%
Four	41,021	11,440	28%
Five or More	48,809	10,290	21%
ALL USF ELIGIBLE	360,935	162,940	45%

J. USF Program Targeting

One important evaluation question is whether the program is serving the households with the greatest level of need. To serve the households with the greatest need, the program should serve:

? Lowest Income – The lowest-income households, since they are likely to have a difficult time paying any energy bill.

? High Burden – The households with the highest energy burden, since energy bills are likely to put the greatest stress on their budgets.

? Vulnerability – The households that are most vulnerable to negative health consequences from having inadequate heating, cooling, and other energy services.

The statistics prepared in this section of the report help us to assess the extent to which the program is targeting benefits on those three dimensions.

1. Income Targeting

There are two dimensions of income targeting-- poverty targeting and gross income targeting. The federal poverty guidelines are designed to compare the relative needs of households by controlling for family size. They consider a three-person household with an income of $15,000 as having a greater need than a one-person household with an income of $15,000. A three-person household with $15,000 in income is considered to be below the poverty line, while a one-person household with that income is considered to be above 150 percent of poverty.

In this section of the report, we found that the largest share of USF program participants was below 100 percent of poverty, and that the smallest share was above 150 percent of poverty. As a percentage of eligible households, households below 100 percent of

poverty were served at a higher rate than households with income above 100 percent of poverty.

The USF program is clearly targeting the lowest-income households. About 90 percent of USF participants have income less than $20,000. About 50 percent of households with incomes less than $20,000 are served by the program. Less than one-third of households with incomes over $20,000 are served by the program.

2. Energy Burden

The statistics in this section show that the program has not been effective in targeting the highest energy burden households. The gas USF program has served about 55 percent of the population with an energy burden less than 10 percent of income, and only 45 percent of the population with an energy burden greater than 10 percent of income. The electric USF program has served about 45 percent of households with an electric burden under 15 percent of income groups, but less than 30 percent of the households with an electric burden over 15 percent of income.

3. Vulnerability Group

We have limited data on the participation rate by vulnerable group. However, in general, it does not appear that program outreach efforts have been effective is serving the most vulnerable households at the highest rate.

Elderly Household – Elderly households participate at a lower rate than do other household types. If elderly households had not been allowed to enter the program through the Lifeline program, the participation rate by elderly households would have been about half of the rate for the average eligible household.

Young Child – It appears that households with a young child participate at lower rates than do other households. However, we are concerned that some data entry problems may have resulted in an understatement of the true number of households with young children.

Public Assistance – SSI households appear to participate in the USF program at a very high rate. TANF households are less likely than average to participate.

Language Groups – Households whose primary language is Spanish participate at a lower rate than do households whose primary language is English. However, the lowest participation rates are found among households that speak a language other than English or Spanish.

4. Summary of Findings

The analysis shows that, in general, the USF program is not serving the households with the greatest needs at a higher rate than other households. If the program wants to improve targeting, it needs to target the highest-burden households, elderly households, young child households, and households that speak a language other than English or Spanish.

IV. Program Accessibility

The second set of evaluation questions posed by the BPU relates to program accessibility. The BPU has asked:

- What are the barriers to program participation?
- Do the barriers differentially affect different population groups? If so how?
- What are the potential remediation alternatives?

To address these questions, we conducted administrative interviews with program managers and program intake workers, reviewed program procedures documents, examined program participation rates, and conducted interviews with customers. These data sources have helped us to identify technical, procedural, and informational barriers to the USF program. In this section of the report, we discuss the findings from these analyses.

A. Measuring Barriers to Program Participation

Generally, there are three barriers to program participation. First, program intake procedures sometimes directly limit or restrict program participation. Second, program intake procedures are sometimes so burdensome that eligible households have difficulty meeting program enrollment requirements. Third, eligible households may be unaware of the program, may not think that they are eligible for the program, or may be discouraged from participating in the program for other reasons. We will address each of these types of barriers in turn.

- Technical Barriers – Program technical barriers were identified by conducting administrative interviews and by reviewing program procedures documents. There are a number of technical barriers to USF program participation, some of which affect a significant number of eligible households. In this section, we identify those barriers.

- Procedural Barriers – We obtained detailed information on application procedures from administrative interviews and by reviewing program documents. During our administrative interviews with intake agencies, we asked intake staff whether the application requirements were burdensome for program participants and to identify any groups for which the program procedures were particularly burdensome. During our client survey, we asked program participants to discuss any difficulties associated with program application procedures.

- Informational Barriers – As part of the evaluation, we conducted a survey with program participants. In that survey, we asked program participants questions that assessed their awareness of energy assistance programs, their perceptions about

energy assistance programs, and their understanding of the program application requirements. Those data gave us an understanding of the informational barriers to the program.

The program participation data developed in Section III of the report demonstrate that certain groups are more likely to participate in the USF program. In this section of the report, we examine differential program participation rates in the context of program barriers and consider whether the program barriers disproportionately affect certain population groups.

B. Technical Barriers to Program Participation

Our administrative interviews furnished us with information on how the USF program operates and allowed us to develop information on the technical barriers associated with the program.

1. Bill Payment Barriers

Certain households are excluded from the USF program. These include:

- Pay Electric or Gas Bill – A household must directly pay an electric or gas bill.
- Name on Bill – The applicant must have the electric or gas account in his or her name or the name of his or her spouse.

The first of these restrictions affects a large number of households. About 15 percent of income-eligible households have their electric bill included in the rent; about 16 percent of income-eligible households have their gas bill included in the rent. For such households, part of the rent payment is used by the landlord to pay the electric and/or gas bill. As part of the interim USF program implemented in 2001, USF payments were made to households that had utilities included in rent. However, since the exact amount of the utility payment cannot be determined, one cannot determine the electric and/or gas energy burden associated with the payment, and cannot determine whether the burden exceeds 3 percent of income. For that reason, households with utilities included in rent are not included in the USF program.

The second restriction affects an unknown number of households. From the USF/HEA database, we know that, for 16,000 of the 150,000 HEA recipients, the OIT/utility matching process was unable to find either a matching gas or a matching electric account, making the household ineligible for USF benefits. However, it is unknown what share of that is a function of name/address matching problems and what share results from failure to have the bill in the customer's name.

As part of the USF program, individual utility companies report that they have encouraged households to ensure that utility bills are in the name of a responsible adult

in the household. However, advocates report that households are having difficulty establishing service in their name and, subsequently, obtaining USF benefits.

2. Screening of Program Participants

During the initial phase of the program implementation, the most important technical barrier to program participation was that participation was limited to existing program participants. In October 2003, HEA and Lifeline recipients were screened for USF eligibility. That screening process was repeated for HEA recipients in April 2004 and September 2004. This procedure was very effective in making the program available to a large number of eligible households. However, it limited USF program enrollment to households that were enrolled in existing programs.

In addition to limiting the program to existing program participants, the screening process also made it less likely that household would participate in the electric USF program. The HEA database had data only on a household's heating account. For households that do not heat with electricity, OIT sent files with HEA name and address information to electric companies for matching. It was challenging for the utilities to match all of these records. That may be one reason why Table 3-36 shows that while gas USF participation rates are estimated to be 53 percent, electric USF participation rates are only 44 percent.

[Note: Those issues did not affect Lifeline participants, since the Lifeline application asks for both the electric and gas company information.]

3. Continuing Barriers for Automatic Screening of Food Stamp Applicants

In November 2005, procedures were put in place so that households could directly apply for the USF program. However, many households still enroll for HEA as part of their Food Stamp application. For those households, the application continues to request information only for the main heating fuel. As a result, this continues to be a barrier to electric USF participation for applicants who enter the system through the Food Stamp application process. This is particularly problematic because our statistics show that the average Food Stamp HEA recipient has an income of about $8,400 per year, while the average intake agency HEA recipient has an income of about $12,500.

4. Restriction on New Lifeline Participants

In October 2003, Lifeline program participants were screened for USF eligibility. These households will continue to receive USF benefits until the BPU makes a final determination about their status.

Lifeline program databases were not screened in April 2004 or in September 2004. During FY 2005, a Lifeline recipient needed to complete a separate application for HEA and USF to receive USF benefits. As discussed in Section III of the report, elderly

households apply for HEA at a much lower rate than do other types of households. [Table 3-41 shows that elderly households have a participation rate of about 36 percent compared to the average participation rate of 45 percent. Further, we estimate that if households are not allowed to participate in the program through the Lifeline program, the participation rate by elderly households could fall to 21 percent, less than half the average participation rate. It is possible that other outreach procedures can enhance the participation rate of these households. However, the outreach efforts to date have not been successful in raising participation rates by these households.

5. Screening of Households in Other Public Assistance Programs

Including HEA application data as part of the Food Stamp application/recertification has made it easier for many low-income households to participate in the HEA and USF programs. There are a number of other public assistance programs that could serve as entry points to the HEA and USF programs. However, to date, procedures have not been developed that would allow households that participate in other programs to be screened for HEA and USF eligibility.

[Note: As discussed later in this section, it is challenging to use multiple data sources to screen for HEA and USF eligibility, since it is sometimes difficult to identify a unique household. In the current system, cases can enter the database through the FAMIS system or can be input directly by a community-based organization. We received reports from community organizations that they sometimes found that information they had entered for a client had been overwritten by data from the FAMIS system. Therefore, any plan to use other program databases as a program entry point needs to be carefully planned prior to implementation.]

6. Remediation of Technical Barriers

Direct Payment of Utility Bills

The first technical barrier to program participation is that a customer must have a utility bill in his or her name. It was a BPU policy decision to exclude households with utilities included in their rent from this program. That decision is consistent with the idea of targeting USF benefits to households with the highest direct energy burden. However, it is important for the utilities to continue to work to ensure that households are able to get service established in their own names.

Coordination of Existing Energy Assistance Benefit Programs

Three OIT data systems are used to screen households for energy assistance benefits – the USF/HEA system, the PAAD/Lifeline system, and the FAMIS (Food Stamp/HEA) system. The USF/HEA database was developed in 2004 to implement the USF program. The PAAD/Lifeline and FAMIS systems are legacy systems. To reduce program barriers, particularly for the lowest-income households (e.g., those that qualify

for Food Stamps) and for elderly households, improvements need to be made in those systems so that they are compatible with USF/HEA requirements and facilitate identification of the household's electric and gas suppliers. Given the status of those systems, it is clear that system revisions would be a major undertaking. However, alignment of the systems for these three energy assistance programs is likely to have a far greater impact on program participation than any amount of program outreach. For that reason, we recommend that this be made a priority for the program administrator.

Coordination of USF/HEA with Other Assistance Programs

In the past, DHS has made use of the data systems from other public assistance programs to identify households to whom HEA/USF outreach materials should be sent. It is appropriate to continue such efforts. Once the existing energy assistance program systems (USF/HEA, PAAD/Lifeline, and FAMIS) are coordinated, it may be appropriate to identify other public assistance databases that can be coordinated.

C. Procedural Barriers to Program Participation

In this section, we examine the procedural barriers to program participation. We examine how program application requirements, program application procedures, and application processing procedures affect program participation.

[Note: In this section, we will ignore the procedural barriers associated with the Food Stamp/HEA application. The first step in resolving those barriers is to align the FAMIS system with the USF/HEA database. Until that happens, any efforts to improve procedures will be difficult to implement.]

1. Program Application Requirements

To enroll in the USF program, a household must complete a USF/HEA application and must submit appropriate program documentation. The program information requirements include:

- Head of household name and address
- List of all household members
- Homeownership / housing and rental subsidies
- Main heating fuel / heating payment arrangement
- Energy suppliers and account numbers
- Sources of income.

The other documents required include:

- Social Security cards for all households members
- Documentation for all sources of income
- Ownership / renter documentation

- ? Copies of recent heating and electric bills
- ? Documentation for public housing / rental assistance.

These information and documentation requirements are typical for government public assistance programs but are more extensive than the requirements for most of the ratepayer-funded energy assistance programs. While these requirements represent a barrier to some households, they also are a necessary condition for the integration of USF and HEA. Given the significant benefits of program integration, any reduction in requirements that would not be consistent with HEA standards would be inappropriate. However, program administrators might consider the following ways to reduce the burden associated with the application process.

- ? Income verification – The USF/HEA application uses a one-month retrospective income verification system (i.e., income received in the last month). However, there are reasons to suggest that either retrospective or prospective annual income might be a better measure of need. Some clients might find it easier to furnish annual income certification (e.g., tax returns) than monthly income certification. Other income verification alternatives might also be considered.

- ? Homeownership / Renter documentation – Since the ownership/renter documentation and copies of the energy bill both can establish residency at a specific location and direct payment of a utility bill, it might be appropriate to eliminate some or all of the homeownership/renter documentation.

- ? Public housing / rent subsidy documentation – It might be possible to build a database with a listing of all addresses where tenants receive rent subsidies, thereby eliminating the need for specific documentation.

These suggestions are not meant to suggest that documentation is not appropriate. Rather, these suggestions are directed to the elimination of potentially duplicative documentation.

2. Program Application Procedures

The USF/HEA application can be mailed to an intake agency or a household can bring the materials directly to the agency's office. The application materials are printed in English and Spanish.

In general, the program application procedures are proactive and appropriate. Clients who are unable to get to an intake agency can have the materials sent to them and can return the application by mail. Clients who have difficulty completing the application can go to an agency in their county to receive assistance in completing the application.

However, there are some clients who might have difficulties with the current system.

- Language Barriers – Households who speak a language other than English or Spanish could have difficulty in learning about the program, completing the application, or even receiving assistance from intake agency staff.

- Literacy Problems – Households who have literacy problems could have difficulty in learning about the program and completing the application.

- Homebound – Households that are homebound for some reason can complete the application by mail, but may have difficulty in obtaining the necessary copies of documents.

There are a large number of social service agencies in New Jersey that are not LIHEAP intake agencies. There may be a way to make use of those agencies to assist households in completing the application form. For example, if workers who deliver meals to elderly and disabled households were trained in the USF/HEA program application procedures, they might be able to ask clients about their need for assistance and ability to complete the required forms, and refer clients who are in need to the appropriate intake agency for a home visit.

3. Agency Processing Procedures

We conducted administrative interviews with a number of USF/HEA intake agencies to develop a better understanding of the agency processing procedures. In general, an agency receives an application, reviews it for completeness, and enters it into the state USF/HEA database system. [Note: A number of agencies are using a client database system developed by La Casa. If they have the system, the agency enters data from the USF/HEA application into the database; the database is then used to electronically complete the application in the USF/HEA database.]

There are two potential barriers to processing an application.

- Incomplete Information – Agencies report that at least 50 percent of the applications that they receive are incomplete.

- Utility Matching Information – After the application is complete, there may be a barrier to receipt of USF benefits if the data systems are unable to match the applicant to an existing utility account.

The agencies are in a better position to help clients with the first barrier than they are to address the second.

When an agency finds that an application is incomplete, they attempt to contact the client to obtain the required information. As might be expected, some clients are easy to contact and problems are quickly resolved. Others, however, are more difficult to contact. We were not able to obtain any statistics on the rate at which these incomplete

applications are turned into complete applications since the system download we received does not include an error history.

The agency must enter the client application within 30 days even if the application remains incomplete. Once they enter the application, the OIT system generates a notification that is mailed directly to the client. The notification is from the State of New Jersey and looks like it might be a benefit check. The notification includes a concise message that indicates to the client that they are not receiving a HEA or USF benefit. One example of the printed message is that the client is not receiving a benefit "because you have not provided the documents necessary to determine your eligibility. If you believe that this is incorrect, or to provide the needed information or documents, please contact #CAP# to complete your application."

In the USF/HEA database, we found about 58,000 households that applied for but did not receive HEA benefits in FY 2005. About 24,000 of those were due to technical reasons related to insufficient information. It is unclear whether those households were eligible for benefits but failed to respond, or the households realized that they were not eligible and never completed the application. However, these statistics do suggest that it is possible that incomplete applications represent a significant barrier to program participation.

While the agency can be proactive in helping a client to complete an application, it is much more difficult for an agency to help a client when the utility matching process fails to find a valid account in the client's name. In part, it is difficult to proactively help a client because agencies are not receiving detailed reports that would alert them that a client's information was not matched by the system. Clients are directed to contact the CAP when the matching process is unable to find a matching electric or gas account. Again, it is unclear how many of these problems are resolved by communications made between or among the client, agency, and/or utility, since there is no error history in the file that we received. However, as reported earlier in this section, at the time of our download, about 16,000 clients had an error code that indicated that a matching company could not be found.

[Note: Prior to the implementation of the USF program, each intake agency would get a monthly report with a list of all households with incomplete applications. The agency could proactively contact households on the list to help them complete the application. During 2005, these reports were not furnished to the agencies. So, agencies had no systematic way to track the status of incomplete applications.]

4. Agency Application Processing Backlog

During 2005, many agencies had an application processing backlog. The sources of that backlog will be discussed in Section IX of this report. However, that backlog presented a significant barrier to program enrollment since applications that had been submitted by eligible clients were not being processed. To address what is hoped to be a short-term problem, the BPU extended USF benefits to all USF clients from April

2005 to September 2005. That decision was made in June 2005 and was applied retroactively to USF customers whose benefits had expired. The application backlog was eliminated by the end of August 2005; those customers who had not yet completed a valid application for 2005 were notified that their benefits expired in September 2005.

As discussed in Section IX, there are a number of ways to prevent the backlog, a significant program barrier, from recurring in 2005-2006.

5. Client Perceptions of Procedural Barriers

Except for the Lifeline-only households, all of the current USF participants applied for HEA either directly to an intake agency or as part of their Food Stamp application. As part of the USF program evaluation survey, we asked participants about the application process.

Only about half of participants report awareness of completing a HEA program application. Among those that report completing the application, we obtained the following information.

- Difficulty – About one-fourth of USF participants reported that the HEA application was "somewhat difficult" or "very difficult." About 40 percent reported that the application was "not at all difficult."

- Reasons – Among those that reported that the application was "very difficult," "somewhat difficult," or "not too difficult," almost half of the respondents indicated that the forms were too long or that the application was burdensome.

These findings suggest that, from the client perspective, simplifying program requirements might have a modest impact on the client's ability to complete forms. However, it seems that the client burden is not as critical as the problem related to the reported high rate of incomplete applications.

6. Remediation of Procedural Barriers

Application Requirements

The program administrator should review the application and consider whether there are any documentation requirements that can be changed in a way that would maintain the fiscal integrity of the program but would reduce the number of documents that an applicant must submit.

Incomplete Applications

Our analysis of the USF/HEA database finds that there may be as many as 40,000 households that applied for USF/HEA benefits in FY 2005 that are not currently receiving benefits because their application was incomplete or their utility information

was incorrect. We recommend that the program administrator initiate a pilot program that would contact a sample of these customers and definitively establish the rate at which eligible applicants are not being served due to procedural or technical barriers. For the barriers that affect the greatest number of clients, the program administrator should identify a remediation plan and then measure the effectiveness of the remediation.

Client Information for Intake Agencies

Prior to 2005, HEA intake agencies received lists of clients with an incomplete application from OIT. They report that they did not receive those lists in FY 2005. If they have not already done so, OIT should develop a (preferably electronic) procedure for notifying intake agencies of the LIHEAP and USF status for all clients that they have served. That would facilitate proactive efforts by the agencies to ensure that their clients are receiving all of the benefits for which they are eligible. The program administrator also should consider how to assign responsibility for clients who complete applications at the County Board of Social Services.

Application Backlogs

Application processing backlogs present a significant barrier to program enrollment that is completely outside the control of the client. As discussed in Section IX, the program administrator and the intake agencies should work together to ensure that the sources of processing backlogs are eliminated for FY 2006.

D. Informational Barriers to Program Participation

There are three types of informational barriers that can affect program participation.

- Program Awareness – Eligible customers may not be aware that the program exists.
- Program Perceptions – Eligible customers may have a misunderstanding about whether they are eligible for benefits and/or the value of the benefits to them.
- Program Procedures – Eligible customers may not understand certain program requirements.

Three evaluation activities were used to develop information on customer awareness.

- Administrative Interviews – We conducted interviews with the BPU, state administrative staff, and the utilities. From these:
  - We documented customer outreach activities.
  - We learned about information problems that were observed by state and utility call centers.

? Agency Observations and Interviews – We met with USF intake agencies to observe the application processing procedures and to discuss program barriers that they had observed.

? Client Interviews – We conducted client interviews to assess program awareness, program perceptions, and knowledge of program procedures directly from clients.

The findings from these evaluation activities are presented below.

1. USF Client Outreach

There have been a number of different types of program outreach activities. The most systematic communications have been mailings to USF customers from OIT and the utilities. For example, customers enrolled in USF in April 2004 received a number of communications about USF and about applying for USF.

? Welcome Letter – All USF customers received a USF welcome letter from their utility.

? Fresh Start Welcome Letter – All Fresh Start Customers received a Fresh Start welcome letter from their utility.

? FY 2005 USF/HEA Outreach – USF customers who enrolled in HEA in FY 2004 through the intake agencies received a mailing during FY 2005 informing them of the availability of USF/HEA benefits; the mailing included a USF/HEA application.

? FY 2005 Supplemental Outreach – USF customers who had not yet reapplied for USF/HEA by January 2005 received a supplemental mailing informing them of the availability of USF/HEA benefits; a USF/HEA application was included.

? Fresh Start Warning – Fresh Start customers who did not achieve full forgiveness of their Fresh Start balance at the end of twelve months received a warning letter from their utility.

? Program Dismissal – USF customers who did not reenroll in the USF program received a dismissal notice from OIT.

USF customers received at least four communications during their program enrollment. Fresh Start customers received at least six communications. In addition, most of the utilities had various other procedures that were directed at USF customers. The communications covered all aspects of the program, including a discussion of the benefits of the program and program reenrollment requirements. All communications also offered clients the opportunity to contact someone regarding the program.

Later in this section, we review statistics that demonstrate that clients have a low awareness of the USF program, have a limited understanding of the benefits of the USF program, and do not understand the program application requirements. However, this does not, as evidenced by the aforementioned list of communication, result from a failure to send information to the clients. Rather, we suspect that a communications strategy based on mailings to program participants is simply inadequate for this program population.

2. Client Contact Resources

The client communications referenced a number of different ways that the clients could get more information on the USF program. These include: the intake agency, the DFD USF Hotline, the DCA HEA Hotline, the BPU Customer Service Hotline, and utility customer service departments. However, two problems were documented relevant to these resources.

- USF Hotline - It appears that one problem was that the primary contact number, the USF Hotline, often had considerable more calls than customer service representatives. Intake agencies report that clients had difficulty getting through to a customer service representative.

- Information – Not all of these telephone-accessible resources had equal access to information. For example, a representative at the DFD USF Hotline or at an intake agency can get into the USF/HEA database to get information on the client's status. Other CSRs do not have access to these systems; therefore, they can only give clients general information on program requirements. They cannot address clients' specific problems.

The gaps in the client information system may, in part, explain why the communications to USF clients don't appear to have achieved the intended effect. If a mail communication encouraged the client to make a contact to one of the information resources but they were unable to get the information that they needed (e.g., the line was busy or the CSR couldn't answer their question), it would significantly reduce the benefit of the communication.

3. USF Client Perceptions of Organizational Support

In the USF survey, we asked clients whether they had had contacts with the various social service agencies and hotlines that are available to customers. About three-fourths of USF clients contacted one or more information sources in the last twelve months. Over half of the clients contacted their utility for information on energy assistance. In addition, over half of USF clients contacted one or more public agencies, including the BPU, a local HEA intake agency, or the county social services office. About one-fourth of clients indicated that they had contacted the HEA hotline, but only about 10 percent of clients reported contacting the USF hotline.

In general, clients thought that the information they received was helpful. Among the clients who made a contact, almost 90 percent indicated that at least one contact was "somewhat helpful" or "very helpful." For most contact types, over 80 percent of the clients who used that contact type reported that the contact was "very helpful" or "somewhat helpful." Clients also perceived that the contacts furnished reliable information, with over 80 percent reporting that they had at least one reliable contact.

From the survey data, it appears that most USF clients believe that there is a reliable source of information that they can contact if they are having trouble with their utility bills.

4. Client Awareness

In the customer survey, we measured client awareness with the full set of energy assistance programs that are available to low-income customers. Table 4-1 shows the program awareness rate by analysis group. The analysis groups are: USF/Automatic (clients screened in 2003 and 2004), USF Direct (FY 2005 clients), Lifeline-only (Lifeline clients screened in October 2003), and HEA Oil (HEA clients not receiving USF). For the three groups of clients who receive HEA, the HEA program has the highest awareness rate. Lifeline also has a high awareness rate, especially for the households receiving it. However, the USF awareness rate is only about 60 percent for the HEA/USF recipients and only 30 percent among Lifeline clients. Among nonrecipients, only about one-fourth are aware of the USF program.

Table 4-1
Program Awareness by Analysis Group

Program	Analysis Group			
	USF/Automatic	USF/Direct	Lifeline Only	HEA Oil
HEA	72%	80%	58%	69%
Lifeline	69%	71%	86%	72%
USF	61%	60%	30%	26%
WAP	55%	46%	33%	54%
NJ SHARES	27%	33%	7%	18%
Comfort Partners	22%	15%	26%	13%

The survey also asked USF clients from whom they received information on energy assistance programs and through what media they received information. Table 4-2 shows that over 70 percent of clients received information about energy assistance programs from at least one source. However, the clients also report that a wide range of sources furnish information to them. About half of the clients indicated that they

received the information in the mail. Very few households heard about energy assistance programs through the media or by word of mouth.

Table 4-2
Program Information by Analysis Group

Program	Analysis Group			
	USF/Automatic	USF/Direct	Lifeline Only	HEA Oil
Utility	21%	20%	26%	15%
Local Intake Agency	18%	20%	2%	21%
Welfare Office	14%	17%	2%	10%
Administrator	12%	11%	12%	10%
State	7%	1%	5%	8%
No Source	18%	24%	30%	21%

The survey also asked USF clients to suggest who they would like to receive information from and through what media they would prefer to receive the information. About one-third of clients in all analysis groups said that they would like to receive information from their utility company, with the remaining two-third indicating that they would like to receive information from different public agencies. More than 90 percent of clients indicated that they preferred to receive information by mail.

Finally, customers were asked whether they applied for HEA and/or USF. Only about half of the clients reported that they had applied for the HEA and/or USF program in the last month. Of those who said that they did not apply, over half indicated that they did not know about the program or they did not know how to apply for the program. About 10 percent of USF clients reported that they don't need to apply because the are already receiving benefits.

Only about 20 percent of Lifeline households indicated that they had applied for HEA benefits. Of those who said that they did not apply, about one-third said that they did not want or need the benefits. However, almost half of these households said that they did not know about the HEA program or that they did not know how to apply.

Most clients report that they would apply for programs if they had needed help with their energy bills. About 90 percent of all four analysis groups said that they would apply for an energy assistance program if they had trouble with their energy bills.

5. Client Understanding of Program Benefits

In the USF customer survey, we asked the USF clients to tell us whether they were receiving USF benefits and, if so, to give us information on what benefits they were receiving from the USF and Fresh Start Programs.

Table 4-3 furnishes information on clients' awareness of receiving benefits. Only about one-fourth of Lifeline-only clients are aware that they are receiving USF benefits, while the awareness rate is above 40 percent for other USF recipients. The awareness rates are low for all groups.

Table 4-3
Program Information by Analysis Group

Received USF	Analysis Group		
	USF/Automatic	USF/Direct	Lifeline Only
Yes	45%	41%	27%
No	30%	27%	56%
Don't Know	25%	32%	23%

Among those clients who are aware that they are receiving benefits, over half report that their ability to pay energy bills has improved, and almost all say that it has improved or stayed the same. In addition, about half of USF clients report that their ability to pay nonenergy bills has improved as a result of the USF program.

For those clients who were not aware of their participation in the USF program, we asked if they noticed a monthly credit on their utility bill. About 30 percent of the clients noticed the credit. When asked what they thought the source of the credit was, about half said they didn't know; about one-fifth said that they thought they were HEA credits.

Among those clients who received Fresh Start benefits, only about 20 percent were aware that they were receiving benefits.

6. Client Understanding of Program Requirements

We asked customers a series of questions that allow us to assess their understanding of the program requirements. Among those customers who were aware that they were receiving USF benefits, about half report that their responsibility under the USF program was to pay their bills. Most of the remaining clients said that they did not know what responsibility they had. Only about one-fourth of clients were aware that they needed to reenroll in USF each year. Of those customers whose USF benefits ended in September 2005, only about 20 percent were aware that they were no longer

receiving benefits. However, when prompted about the notice that was mailed to them, about 40 percent of the clients remembered receiving the notice.

7. Discussion of Findings

It is not uncommon for program participants to have a limited awareness of the program, the program benefits, and/or the program requirements. Often, clients are simply looking for a solution to the immediate problem that they face. For USF clients, that problem was most often difficulty paying an unaffordable and perhaps overdue energy bill. They found that the HEA grant met their immediate need and they did not necessarily even focus on the longer-term benefit from USF.

However, there are three elements of the NJ USF program that cause NJ USF clients to be less aware of program benefits and requirements than most energy assistance program recipients.

- Automatic Enrollment – In 2003 and 2004, existing HEA and Lifeline recipients were assigned USF program benefits. Since the client did not apply for USF, they could only become aware of the program by reading one of the USF communications or by carefully examining their utility bill.

- Automatic Screening of Food Stamp Applicants – As part of the Food Stamp application, households furnish information to apply for HEA benefits. Again, their only information about the USF program comes from USF communications and/or utility bills.

- Joint Application for HEA and USF – Even when a USF client has directly applied for benefits, they may be more focused on the immediate HEA benefit than the longer term USF benefit.

For all of these reasons, it is not surprising to find the low rates of USF program awareness, as well as low rates of understanding program benefits and program requirements. However, while this study has measured the levels of program awareness, it was not in the evaluation scope to develop an effective communication strategy. The evaluation demonstrates the clear need for the development of an effective communication strategy. That strategy can only be developed through an in-depth process of testing alternative modes of communication. We recommend that the BPU make the development of an effective communications strategy a top priority for FY 2006.

E. Summary of Findings

The evaluation has developed a number of important findings with respect to program accessibility. Our key recommendations are:

- Technical – The most important technical barrier to program participation is the lack of coordination of the three existing energy assistance information systems – USF/HEA, FAMIS, and Lifeline. We recommend that the program administrator make it a top priority to coordinate those three systems by modifying the computer systems or by modifying the application processing systems.

- Procedural – It is difficult to develop precise information on the number of households for whom there are procedural barriers to program participation. We recommend that the program administrator conduct a pilot program that directly examines clients with incomplete applications and establishes the main causes for those incomplete applications. With that information, the program administrator can establish a strategy for revising forms, procedures, and/or requirements that would facilitate program enrollment while maintaining program integrity.

- Informational – It is clear that USF clients have very little awareness or understanding of the USF program. The BPU should develop a communications strategy that increases the awareness and understanding for both existing program participants and program nonparticipants. [Note: In the USF Working Group, there has been discussion of the need for client outreach. Those discussions should be renewed and given a high priority by BPU staff.]

To be successful in implementing these changes to the program, the program administrator and BPU staff need resources that are specifically designated for projects that overcome the program participation barriers. They cannot be undertaken as part of ongoing program operations.

V. Payment Compliance

The third set of evaluation questions posed by the BPU relates to payment compliance by USF customers. The BPU has asked:

- ? What is the distribution of customers by payment rate for both the USF customers in general and Fresh Start participants specifically?
- ? What factors are associated with a failure or inability of USF and Fresh Start participants to make payments?
- ? What are the potential remediation alternatives?
- ? Explain whether effective additional steps are being taken to keep utility service available to USF recipients who continue to face utility bill affordability problems?

In this section, we address those issues in the following order.

- ? Payment Compliance Rate and Distribution of Payment Compliance – We compute the payment compliance rate for the most recent program year and present statistics for the average payment compliance rate and the distribution of the payment compliance rate.
- ? Sources of Payment – We compute the average share of customer charges that are paid by different sources and the distribution of the payment by different sources.
- ? Client Groups – We present statistics on payment compliance rate, the distribution of payment compliance, and the sources of payment for important client subgroups.
- ? Maintenance of Utility Service – We review utility reports on service disruptions for USF customers.
- ? Remediation Alternatives – We identify the most important issues associated with payment compliance and offer suggestions for how they might be addressed.

The data used to conduct these analyses were obtained from the databases maintained by the NJ Office of Information Technology (OIT) and from the participating utility companies.

A. Payment Compliance Data

The starting point for the analysis of payment compliance is a sample of USF program participants from the two databases maintained by the program administrator – the USF/HEA database for most participants and the USF records for the Lifeline-only USF participants. The USF/HEA database includes information on all of the households that were automatically assigned USF program benefits between October 2003 and September

2004, as well as all households that applied for HEA/USF benefits since October 2004, including those households that were not awarded HEA and/or USF benefits. We obtained a 10 percent sample of these households from the program administrator. The USF/HEA database sample included 27,340 records. The data on Lifeline-only clients consisted of information on Lifeline recipients that were automatically screened for USF benefits in October 2003 but who did not apply for HEA benefits during 2005. The Lifeline-only sample had 2,476 records.

Most of the information on USF client characteristics was obtained from the program administrator database. The database includes demographic information, HEA program participation information, and USF program participation information. One exception is Fresh Start participation status. Those data were furnished by the utility companies.

For each USF participant in the database, we made an information request to the client's utility company for overall payment status data, a meter reading history, and a transaction record. We requested information from October 2002 through August 2005.

Utilities furnished data that were available from their information systems. In some cases, the utility no longer had information on a USF client because the client was no longer a customer. In other cases, the utility had information for a USF client, but did not have adequate information in the record to complete all of the payment analyses conducted. In Table 5-1A, we furnish information on the data retrieval rate for each utility company.

Table 5-1A
Data Retrieval Rates by Utility

Utility	Total Number of Clients	Number with Data	Data Retrieval Rate
PSE&G	10,054	6,639	66.0%
NJNG	1306	1,306	100.0%
ETG	856	739	86.3%
SJG	1468	1,468	100.0%
ACE	2,133	2,133	100.0%
JCP&L	2,065	2,065	100.0%
RE	64	64	100.0%
ALL UTILITIES	17,946	14,414	80.3%

In this section, we examine payment compliance rates for the most recent program year (July 2004 to June 2005) for clients who were enrolled in the USF program in October 2003 or April 2004. Table 5-1B furnishes information on the number of clients who had adequate data for that analysis. Several factors in addition to the utility's ability to supply data affected inclusion in the payment compliance analysis. The analysis required at least 330

days of billing and payment data. The analysis file also excluded records for clients with greater than $4,000 in charges or payments or less than $500 in charges or payments during the analysis year.[14]

Table 5-1B
Data Retrieval Rates for Payment Compliance Analysis by Utility

Utility	Number of Clients Targeted	Number with Sufficient Data	Data Retrieval Rate
PSE&G	5,259	3,496	66.5%
NJNG	968	557	57.5%
Elizabethtown	*	*	*
SJG	1028	657	63.9%
ACE	1137	654	57.5%
JCP&L	1858	999	53.8%
RE	53	30	56.6%
ALL UTILITIES	10,303	6,393	62.0%

*When processing the utility data, we identified an issue in the ETG data that made use concerned about our ability to reliably develop accurate coverage statistics. We decided to proceed with the analysis, but work with ETG to resolve the analytic issue.

The inability to retrieve data for all households that participated in the USF program is one limitation of the analysis. Households that are no longer customers of a utility could be having more difficulty paying their utility bills that those who remain customers. However, this limitation is reduced because the utilities independently report on the number of USF households that have their service terminated for nonpayment. In our analysis, we will use those data to assess the extent to which lack of data is a barrier to analysis.

Table 5-1C presents basic characteristics of the sample analyzed in this chapter. In all we are conducting an analysis of 5,910 households. About 60 percent of those households were automatically screened for the program in October 2003 as a result of receiving HEA benefits during HEA program year 2003. Another 30 percent of those households were automatically screened for the program in October 2003 as a result of receiving Lifeline benefits during 2003. The remaining 10 percent of households were those screened automatically in April 2004 as a result of receiving HEA benefits prior to April 2004. Almost 40 percent of the households had arrearages in April 2004 and were enrolled in the Fresh Start Program. Excluding the Lifeline-only households, about 60 percent of the households reenrolled for the USF program in 2005 by applying for HEA and USF. [Note: The Lifeline-only households retained their USF benefits. Any household that was

[14] In our preliminary analysis, we found that customers with unusually low bills and unusually high bills tended to skew the coverage statistics, making it difficult to discern the coverage patterns for all households and subgroups of households. About 3 percent of customers were determined to have unusually high bills and 8 percent of customers were determined to have unusually low bills. They are excluded from most of the analyses in this section, but are included in the analysis of payment coverage patterns by usage amount.

originally enrolled in the program as a result of Lifeline participation, but that has subsequently directly enrolled in USF is not part of the Lifeline-only group.]

Table 5-1C
Characteristics of Payment Compliance Analysis Sample

Group	Percent of Households
All Analysis Clients	100% (n=5,910*)
Enrollment Group:	
Lifeline Only	27.8% (n=1644)
October 2003	59.4% (n=3508)
April 2004	12.8% (n=758)
Ever Participated in Fresh Start	38.8% (n=2295)
Reenrolled in USF in FY2005	59.5% (n=2536)
USF Benefit Type	
Electric Only	30.7% (n=1,813)
Gas Only	12.7% (n=750)
Gas and Electric Combination**	35.1% (n=2,073)
PSEG Combination ***	21.4% (n=1,267)
Average Annual Income	$12,200

*In Table 5-1B it shows that we received adequate billing data for 6,393 accounts. Those accounts related to 5,910 households.
**Gas and Electric combination are clients who have both electric and gas utility service and both electric and gas USF benefits, including PSE&G customers with both types of service and benefits.
***PSE&G Combination are clients who have both electric and gas utility service, but only have a USF benefit for one of the fuels.

B. Payment Compliance Rates for All USF Customers

In this section, we furnish information on the average payment rates for all USF customers and the distribution of payment rates. For each USF client, we computed the amount the customer was billed for usage and other charges during the most recent twelve-month period (July 2004 to June 2005 for most customers) and compared it to the amount credited to the

customer's account during the payment window for those charges.[15] We use the utility transaction file to compute the annual charges for a customer.[16] We also use the utility transaction file to compute the customer payments, including: customer payments, HEA payments, Lifeline payments, USF credits, and other credits to the customer's account. By comparing the payments to the charges, we developed a "coverage rate" for each customer. The tables in this section show the average "coverage rate" and distribution of "coverage rate" for customers who were on the USF program prior to the start of the analysis period.[17]

For this group of households, the "coverage rate" may not be the best analysis tool. Some clients had a credit on their account at the start of the analysis period. For that reason, we computed a second analysis variable, "the effective coverage rate." The "effective coverage rate" is computed as:

ECR = (Customer Payments + Outstanding Credits) / Customer Bills

In this way, the analysis recognizes that a customer would not be expected to make payments on all of the bills they received during a year if they had a credit on their account at the starting point of the analysis.

To assess the ability of the USF program to make bill payment easier for clients with preprogram arrearages, these tables also describe coverage rates and composition of payments for subsets of Fresh Start customers. The tables in this section present information for all USF customers, those who did not need the Fresh Start program, and those who participated in the Fresh Start Program.

Tables 5-2A and 5-2B show the average coverage rate and the average effective coverage rate for the most recent program year. On average, USF recipients were successful in paying their bills over the analysis period. Average customer payments, credits, and beginning credits to recipients' accounts exceeded charges by $21 and resulted in an average effective coverage rate of over 101 percent.

Overall, recipients had an average of $87 in credits at the beginning of the analysis period. This beginning balance increased the average payments from $1,602 to $1,689 and gave recipients over 5 percent more bill coverage than cash payments and credits during the analysis year.

[15] If a customer receives a utility bill on June 30, the payment for the bill would be due some time in July. For purposes of this analysis, we started the annual payment period when the first bill was sent to the client and ended the annual payment period 30 days after the last bill was sent to the client.

[16] For many customers, the usage charges in the billing file are the same as the consumption charges in the transaction file. However, for budget billing customers, the two numbers are likely to be different for any twelve month period. We used the data from the transaction file because those are the charges that actually appear on a customer's bill and represent the amount that the customer is required to pay.

[17] The analysis includes USF customers who were enrolled in USF in October 2003 and April 2004. The analysis does not include customers who were enrolled in USF in September 2004 and during FY 2005. For those customers, the annual period includes months when they were not on USF and months when they were on USF. Therefore, the experience of those customers cannot be used to assess payment compliance under USF.

Table 5-2A
Coverage Rate and Effective Coverage Rate for FY 2005 Program Year

Analysis Variable	Mean Charges	Mean Payments	Coverage Rate
Coverage Rate	$1,668	$1,602	96.0%
Effective Coverage Rate	$1,668	$1,689	101.3%

Fresh Start participants had a lower average level of bill coverage than did non-participants. The effective coverage rate for Fresh Start Customers was about 12 percentage points lower than for USF recipients who did not need Fresh Start forgiveness. On average, about 6 percent of the bills for Fresh Start participants were not paid. Nonparticipants had their bills fully covered and credits to their account resulting in an average effective coverage rate of 107 percent.

Table 5-2B furnishes another piece of information about Fresh Start customers. The average total bill for Fresh Start customers was over 30 percent higher, while average total payments for Fresh Start customers were over 16 percent higher. Higher bills for Fresh Start customers appear to be associated with lower payment coverage rates.

Table 5-2B
Coverage Rate and Effective Coverage Rate for FY 2005 Program Year,
By Fresh Start Status

	FRESH START STATUS					
	Fresh Start Participant			Non-Fresh Start		
	Mean Charges	Mean Payments	Coverage Rate	Mean Charges	Mean Payments	Coverage Rate
Coverage Rate	$1,958	$1,762	90.0%	$1494	$1,487	99.5%
Effective Coverage Rate	$1,958	$1,845	94.2%	$1494	$1,596	106.8%

Tables 5-3A and 5-3B show the distribution of coverage rate for USF customers. Without incorporating beginning credits into the analysis, utility companies received less than 90 percent reimbursement for over one-quarter of USF customers. About 44 percent of clients covered 100 percent of their annual utility bill with the payment made during the target analysis period.

In this table we also note that those customers who paid 100 percent or more of their bills had lower average bills than did the customers who paid less than 100 percent of their bills. Customers who paid less than 50 percent of their bill had the highest average charges.

Table 5-3A
Distribution of Coverage Rate for FY 2005 Program Year

Coverage Rate	Number of Clients	Percent of Clients	Mean Charges
LT 25%	0	0.0%	N/A
25% to LT 50%	71	1.2%	$2,035
50% to LT 75%	404	6.8%	$1,762
75% to LT 90%	1,057	17.9%	$1,727
90% to LT 100%	1,784	30.2%	$1,732
100% or More	2,594	43.9%	$1,574
ALL CLIENTS	5,910	100.0%	$1,668

USF clients who were not eligible for the Fresh Start program had significantly higher levels of payments compliance than did Fresh Start participants. About 51 percent of nonparticipants paid 100 percent of their bills compared to about 32 percent of Fresh Start participants.

Table 5-3B
Distribution of Coverage Rate for FY 2005 Program Year,
By Fresh Start Status

	FRESH START STATUS					
	Fresh Start Participant			Non-Fresh Start		
Coverage Rate	Number of Clients	Percent of Clients	Mean Charges	Number of Clients	Percent of Clients	Mean Charges
LT 25%	0	0.0%	N/A	0	0.0%	N/A
25% to LT 50%	59	2.7%	$2,079	12	0.3%	$1,820
50% to LT 75%	274	12.4%	$2,009	130	3.5%	$1,241
75% to LT 90%	563	25.4%	$1,998	494	13.4%	$1,418
90% to LT 100%	604	27.3%	$2,041	1,180	31.9%	$1,575
100% or More	713	32.2%	$1,827	1,881	50.9%	$1,479

Table 5-4A shows the distribution of effective coverage rate for USF customers. Over two-thirds of USF clients had an effective coverage rate of 100 percent or more. Utility companies received payment for less than 90 percent of bills from only 16 percent of USF clients. Only 1 percent of customers paid less than 50 percent of their bills during the target analysis period.

Table 5-4A
Distribution of Effective Coverage Rate for FY 2005 Program Year

Coverage Rate	Number of Clients	Percent of Clients	Mean Charges
LT 25%	0	0.0%	N/A
25% to LT 50%	54	0.9%	$2,255
50% to LT 75%	265	4.5%	$1,969
75% to LT 90%	642	10.9%	$1,857
90% to LT 100%	984	16.7%	$1,845
100% or More	3,965	67.1%	$1,565
ALL CLIENTS	5,910	100.0%	$1,668

Table 5-4B shows the distribution of effective coverage rate for USF customers by Fresh Start status. Ninety-five percent of nonparticipants covered more than 90 percent of their bills compared to 65 percent of Fresh Start participants. Only about 40 percent of Fresh Start customers had a 100 percent coverage rate even when outstanding credits are included.

Table 5-4B
Distribution of Effective Coverage Rate for FY 2005 Program Year,
By Fresh Start Status

	FRESH START STATUS					
	Fresh Start Participant			Non-Fresh Start		
Coverage Rate	Number of Clients	Percent of Clients	Mean Charges	Number of Clients	Percent of Clients	Mean Charges
LT 25%	0	0.0%	N/A	0	0.0%	N/A
25% to LT 50%	48	2.2%	$2,218	6	0.2%	$2,546
50% to LT 75%	230	10.4%	$2,029	35	1.0%	$1,578
75% to LT 90%	489	22.1%	$1,966	153	4.1%	$1,506
90% to LT 100%	583	26.3%	$2,038	401	10.9%	$1,565
100% or More	863	39.0%	$1,866	3,102	83.9%	$1,481

On average, USF clients were able to cover their bills during the analysis year. The average effective coverage rate for USF participants was over 100 percent. However, the distribution of coverage rate demonstrates that some customers had more difficulty paying their bills. About one in six USF customers (16 percent) were able to pay less than 90 percent of their current energy bill.

These results furnish an ambiguous answer to the question about whether USF customers are paying their bills. A 100 percent average payment compliance rate is a very positive result. However, 16 percent of the clients paid less than 90 percent of their bill, indicating that they increase their arrears by over $150 during the year.[18] It is possible that, for clients who pay erratically, a one-year period is not adequate to capture their longer-run payment compliance. However, we have not been able to develop a systematic way of testing that hypothesis.

C. Sources of Payment for USF Customers

The USF program is designed to give each client the same effective energy burden. Clients with higher bills and/or lower income have a greater share of their bill paid by USF. Clients with lower bills and/or higher income have a smaller share of their bill paid by USF. In this section, we present information on the average share of customer charges that are paid by different sources and the distribution of the shares of payment by different sources.

The categories of customer credits include:

- Customer Payments – Payments made directly by the customer
- USF Credits - Credits applied to the customer account by the USF program
- HEA Credits – Credits applied to the customer account by the HEA program
- Lifeline Credits – Credits applied to the customer account by the Lifeline program
- Other Credits – Other credits applied to the customer account.

We do not include Fresh Start credits in the analysis. Fresh Start credits are intended to retire balances that were accrued prior to the target analysis year.

Table 5-5 presents information on the average amount of each payment type customers. The table shows the share of customers that had each payment type during the analysis period, the average amount of the credit received for clients who had that payment type, the average amount of credit for all clients, and the share of total payments for each payment type. On average, customer payments accounted for the largest share of bill coverage. USF credits accounted for a significant share of bill payment. Customers made payments of $705, which covered 44 percent of the average $1,602 bill. An average of $626 in USF credits contributed to bill payments during the analysis period; these credits covered 39 percent of total bills. HEA, Lifeline, and other credits were about 18 percent of payments made.

Overall, USF, HEA, and Lifeline credits reduced customers' average cash contribution to their bill by almost $900. These three sources accounted for 56 percent of the payments

[18] The average bill for clients was $1,664. If an average customer paid only 90 percent of the bill, his or her arrears would increase by $166 between the beginning of the analysis period and the end of the analysis period.

made during the analysis year. For a small portion of the households analyzed, the size of these credits required that no cash payment be made by the customer during this period.

Table 5-5
Sources of Payment for FY 2005 Program Year

Payment Type	Percent with Payment Type	Mean Amount for Clients with Payment Type	Mean Amount for All Clients	Share of All Payments for USF Clients
Customer Payments	95.0%	$743	$705	43.6%
USF Credits	99.9%	$626	$626	39.0%
HEA Credits	37.6%	$548	$206	12.4%
Lifeline Credits	30.8%	$197	$61	4.9%
Other Credits	0.2%	$137	$3	0.2%

The analysis of payment composition by Fresh Start status in Table 5-6 provides similar results. However, cash payments accounted for a greater proportion of payments made by nonparticipants than for those who were receiving Fresh Start benefits.

Table 5-6
Sources of Payment for FY 2005 Program Year
By Fresh Start Status

	FRESH START STATUS							
	FRESH START PARTICIPANTS				NON-FRESH START			
Payment Type	Percent with Payment Type	Mean Amount for Clients with Payment Type	Mean Amount for All Clients	Share of All Payments for USF Clients	Percent with Payment Type	Mean Amount for Clients with Payment Type	Mean Amount for All Clients	Share of All Payments for USF Clients
Customer Payments	94.9%	$780	$741	40.9%	95.0%	$720	$684	45.2%
USF Credits	100.0%	$738	$738	41.6%	99.9%	$560	$559	37.4%
HEA Credits	51.0%	$568	$290	16.1%	29.6%	$527	$156	10.1%
Lifeline Credits	9.1%	$202	$18	1.2%	43.8%	$196	$86	7.1%
Other Credits	2.1%	$213	$4	0.3%	2.5%	$99	$2	0.2%

D. Analysis of Client Subgroups

One important challenge for this evaluation is to develop an understanding of why some USF clients are able to make all of their required payments while others are not. One way to approach this question is to compare payment compliance rates, the distribution of payment compliance rates, and the source of payments for different population subgroups. The differences that we observe will suggest hypotheses for the sources of payment problems.

The following set of tables reviews payment compliance rates and sources of payments by USF benefit type, company, enrollment group, income group, poverty group, usage levels, and net energy burden. The "effective coverage rate" is used below to analyze payment sufficiency for USF customers. The Fresh Start status of customers is also presented as part of each of these analyses to assess the ability of this subset of payment-troubled customers to cover their bills in the most recent year.

1. USF Benefit Type – Electric, Gas, and Combination of Services

USF clients can receive assistance with their electric bill, gas bill, or both. We retrieved utility transaction data from any utility for which the household was receiving a USF benefit. Tables 5-7A and 5-7B describe the effective coverage rate for each type of bill.

The effective coverage rates for all four categories indicate near full payment or excess credits across each of the USF benefit types. Clients receiving a gas-only USF benefits have the highest effective coverage rate. [Note: One factor influencing this statistic is that some USF customers received a supplemental HEA credit of $175 in August or September of 2005. As a result, many of these customers may have had a credit on their bills.] This effective coverage rate, nearly 110 percent, results from a $134 credit beyond the average charges of $1,353.

Table 5-7A
Effective Coverage Rate by USF Benefit Type

Group	Mean Charges	Mean Payments	Coverage Rate
Electric USF Only	$1,207	$1,253	103.8%
Gas USF Only	$1,353	$1,487	109.9%
Gas and Electric USF*	$2,140	$2,123	99.3%
PSE&G Combination**	$1,743	$1,726	99.0%

*Gas and Electric combination are clients who have both electric and gas utility service and both electric and gas USF benefits, including PSE&G customers with both types of service and benefits.
**PSE&G Combination are clients who have both electric and gas utility service but only have a USF benefit for one of the fuels.

Table 5-7B describes the distribution of effective coverage rate for the four USF benefit types. The proportions of USF clients in these four groups with full or above full coverage ranges from 58 percent (Gas and Electric USF) to 81 percent (Gas USF Only).

The proportion of USF clients in each of these groups with more than 10 percent of their charges unpaid is between 10 percent (Gas USF Only) and 23 percent (Gas and Electric USF).

Table 5-7B
Distribution of Effective Coverage Rate by USF Benefit Type

Group	Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Electric USF Only	0.1%	11.8%	14.6%	73.6%
Gas USF Only	0.4%	9.1%	9.5%	81.1%
Gas and Electric USF	1.5%	20.5%	19.6%	58.4%
PSE&G Combination	1.3%	15.8%	19.1%	63.8%

Table 5-8 shows the distribution of payment source by USF benefit type. USF credits account for between one-quarter and one-half of all payments made by each type of client. Electric USF Only clients have the highest share of payments attributable to the USF program; approximately 46 percent of payments made were USF credits. For both Electric USF Only and Gas and Electric USF clients, the proportion of bills covered with USF credits exceeds customer payments by 5 percentage points.

Table 5-8
Distribution of Payment Sources by USF Benefit Type

Group	Payment Source				
	Customer	USF	HEA	Lifeline	Other
Electric USF Only	40.2%	45.9%	3.8%	9.7%	0.4%
Gas USF Only	41.6%	36.6%	18.5%	2.8%	0.5%
Gas and Electric USF	37.6%	43.0%	17.3%	2.0%	0.1%
PSE&G Combination	59.1%	23.9%	12.9%	4.0%	0.0%

2. Company

In this section, we examine how compliance rates vary by company. Tables 5-9A and 5-9B describe the effective coverage rate for clients being served by the utility companies participating in the USF program. Nearly all companies have average effective coverage rates indicating full or near-full bill payment. Effective coverage rates range from 98 percent (PSE&G Combination) to 113 percent (South Jersey Gas) and the difference between mean charges and mean payments ranges from a $37 shortfall to a $171 surplus.

Table 5-9A
Effective Coverage Rate by Company

Group	Mean Charges	Mean Payments	Coverage Rate
ACE	$1,181	$1,223	103.6%
JCP&L	$1,184	$1,194	100.8%
RE	$987	$1,038	105.2%
PSE&G Electric	$1,127	$1,194	105.9%
NJNG	$1,443	$1,514	104.9%
SJG	$1,286	$1,456	113.2%
ETG	*	*	*
PSE&G Combination	$1,921	$1,884	98.1%

*ETG data are being reviewed for consistency.

Table 5-9B shows the distribution of effective coverage rate by company. The proportions of USF clients served by these companies with full or above-full coverage ranged from 57 percent (PSE&G Combination) to 84 percent (New Jersey Natural Gas). The proportions of USF clients with less than 90 percent coverage served by these companies ranged from 7 percent (Rockland) to 22 percent (PSE&G Combination).

Table 5-9B
Distribution of Effective Coverage Rate by Company

Group	Effective Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
ACE	0.3%	8.7%	12.7%	78.3%
JCP&L	0.3%	14.9%	14.3%	70.5%
RE	0.0%	6.7%	10.0%	83.3%
PSE&G Electric	0.0%	11.2%	15.5%	73.3%
NJNG	0.4%	8.3%	7.5%	83.8%
SJG	0.3%	7.8%	10.4%	81.6%
ETG*				
PSE&G Combination	1.7%	20.7%	20.3%	57.3%

*ETG data are being reviewed for consistency.

Table 5-10 shows the distribution of payment source by company. The electric companies serving USF customers have a larger share of payments from USF credits than from customer payments. USF and Lifeline benefits significantly exceed customer payments for USF clients being served by these companies. Additionally, the combined

proportion of USF and HEA benefits for companies serving gas USF clients significantly exceeds the average customer payment contribution.

Table 5-10
Distribution of Payment Sources by Company

Group	Payment Source				
	Customer	USF	HEA	Lifeline	Other
ACE	41.1%	45.3%	1.6%	12.0%	0.0%
JCP&L	40.0%	47.8%	2.1%	9.6%	0.7%
RE	43.4%	43.7%	0.0%	12.9%	0.0%
PSE&G Electric	43.7%	44.2%	6.3%	5.8%	0.0%
NJNG	47.9%	33.1%	14.3%	3.7%	1.0%
SJG	36.9%	40.4%	19.6%	3.1%	0.0%
ETG*					
PSE&G Combination	46.2%	34.7%	16.8%	2.3%	0.0%

*ETG data are being reviewed for consistency.

3. USF Enrollment Group

This analysis is being conducted for households that were enrolled in USF prior to June, 1, 2004. Those households include Lifeline-only households enrolled in October 2003, HEA households enrolled in October 2003, and HEA households enrolled in April 2004.

Table 5-11A shows the average effective coverage rate for USF customers by enrollment group. Overall, Lifeline-only clients have the highest rate of payment compliance with an effective coverage rate of 103 percent. Mean payments exceeded mean charges by nearly $50 for this group of USF participants. April 2004 USF enrollees had slightly less than full payment coverage during the analysis period with a $25 shortfall in payments and credits.

Table 5-11A
Effective Coverage Rate by USF Enrollment Group

Group	Mean Charges	Mean Payments	Coverage Rate
Lifeline Only	$1622	$1670	103.0%
October 2003	$1687	$1706	101.1%
April 2004	$1676	$1651	98.5%

Table 5-11B shows the distribution of effective coverage rate by enrollment group. Lifeline-only USF customers had the largest proportion with full or above-full coverage, while the April 2004 enrollees had the lowest rates of full payment compliance.

Table 5-11B
Distribution of Effective Coverage Rate by USF Enrollment Group

Group	Effective Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Lifeline Only	0.2%	4.5%	12.5%	82.7%
October 2003	1.0%	18.8%	17.9%	62.3%
April 2004	1.9%	23.1%	19.7%	55.4%

Table 5-12 shows the distribution of payment source by enrollment group. USF and HEA credits accounted for approximately 57 percent of all payments for October 2003 and April 2004 enrollees. Lifeline-only customers had 47 percent of their payments made with USF and Lifeline credits. Customer payments accounted for 40 percent of all payments and credits for October 2003 and April 2004 enrollees and, 52 percent of all payments and credits from the Lifeline-only group.

Table 5-12
Distribution of Payment Sources by USF Enrollment Group

Group	Payment Source				
	Customer	USF	HEA	Lifeline	Other
Lifeline Only	52.0%	37.0%	0.4%	10.4%	0.2%
October 2003	40.4%	39.2%	17.0%	3.2%	0.2%
April 2004	40.2%	41.9%	16.7%	0.8%	0.5%

4. Income Group

All USF clients are considered to be low-income. However, within the group of USF participants, we can further divide clients into subgroups. Table 5-13A shows the average effective coverage rate for USF customers by income group. Mean charges incurred by USF customers in the lowest income bracket (less than $10,000) were approximately $400 less ($1,590 vs. $1,984) than those incurred in the highest income bracket ($20,000 or more). However, the payments made by households in the highest income bracket were only $250 larger ($1,642 vs. $1,897). Households with an annual income of less than $10,000, therefore, had better payment compliance than did households with higher levels of annual income.

Table 5-13A
Effective Coverage Rate by Income Group

Group	Mean Charges	Mean Payments	Coverage Rate
LT $10,000	$1,590	$1,642	103.3%
$10,000 to LT $20,000	$1,660	$1,682	101.3%
$20,000 or More	$1,984	$1,897	95.6%

Table 5-13B shows the distribution of effective coverage rate by income group. USF customers in households with $20,000 or more in annual income had a larger proportion with less than 90 percent coverage and a significantly smaller proportion with full or above-full coverage than did those in the lower income brackets.

Table 5-13B
Distribution of Effective Coverage Rate by Income Group

Group	Effective Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
LT $10,000	1.1%	15.0%	15.7%	68.1%
$10,000 to LT $20,000	0.7%	13.9%	16.0%	69.5%
$20,000 or More	1.5%	23.8%	23.6%	51.1%

Table 5-14 shows the distribution of payment source by income group. Sixty-six percent of the payments made by USF customers in the lowest income bracket were USF, HEA, and Lifeline credits. Forty-two percent of the payments made by USF customers in the highest income bracket were USF, HEA, and Lifeline credits. The share of all payments that were directly made by the customer was 24 percent less in the lowest income bracket compared to the highest.

Table 5-14
Distribution of Payment Sources by Income Group

Group	Payment Source				
	Customer	USF	HEA	Lifeline	Other
LT $10,000	34.1%	45.5%	16.6%	3.6%	0.2%
$10,000 to LT $20,000	47.3%	36.1%	9.9%	6.5%	0.2%
$20,000 or More	57.8%	30.4%	10.2%	1.3%	0.4%

5. Poverty Group

Some analysts find that poverty group is a better representation of ability to pay than is income group. However, our analysis demonstrates similar results for these two data elements. Table 5-15A shows the average effective coverage rate for USF customers by poverty group. USF clients residing in households at lower poverty levels have higher effective coverage rates, which may be attributable to the higher shares of their payments that consist of USF and HEA credits. These credits minimize the portion of the bill that must be paid out of pocket and heighten clients' ability to cover their bills. Tables 5-15A, 5-15B, through 5-16 show these results.

Table 5-15A
Effective Coverage Rate by Poverty Group

Group	Mean Charges	Mean Payments	Coverage Rate
Income At or Below 100% of Poverty	$1,658	$1,693	102.1%
Income Over 100% to 150%	$1,627	$1,655	101.7%
Income Above 150%	$1,860	$1,768	95.0%

Table 5-15B shows the distribution of effective coverage rate by poverty group. Seventy-two percent of USF customers in households with income levels above 150 percent of the Federal Poverty Guidelines had 90 percent or more bill coverage. Eighty-two percent of USF customers in households with income between 100 and 150 percent of the Federal Poverty Guidelines had 90 percent or more bill coverage. Eighty-one percent of USF customers in households with income below 100 percent of the Federal Poverty Guidelines had 90 percent or more bill coverage.

Table 5-15B
Distribution of Effective Coverage Rate by Poverty Group

Group	Effective Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Income At or Below 100% of Poverty	1.1%	18.4%	17.7%	62.8%
Income Over 100% to 150%	1.3%	17.3%	16.4%	65.1%
Income Above 150%	1.3%	26.7%	23.5%	48.5%

Table 5-16 shows the distribution of payment source by poverty group. USF customers in households with incomes above 150 percent of the Federal Poverty Guideline had a customer payment share 25 percentage points higher than did those in households with incomes below 100 percent of the Federal Poverty Guidelines. USF customers in

households with incomes below 100 percent of the Federal Poverty Guidelines had USF, HEA, and Lifeline credits accounting for 68 percent of all payments made.

Table 5-16
Distribution of Payment Sources by Poverty Group

Group	Payment Source				
	Customer	USF	HEA	Lifeline	Other
Income At or Below 100% of Poverty	32.2%	44.3%	21.5%	1.8%	0.2%
Income Over 100% to 150%	45.1%	34.8%	15.0%	4.8%	0.3%
Income Above 150%	57.7%	33.5%	6.2%	2.1%	0.5%

6. Usage Level — USF Gas or Electric Only

In this section, we examine how compliance rates vary with usage levels USF Gas or Electric Only clients. Although the effective coverage rates for each usage level denotes above full coverage, higher usage levels are associated with lower coverage rates. Table 5-17A shows the effective coverage rates by Usage Level. Overall, average excess payments, credits and outstanding credits are $79, $84, and $56 for the less than $1000, $1000-$1499, and $1500 and above usage levels, respectively.

Table 5-17A
Effective Coverage Rate by Usage Level

Group	Mean Charges	Mean Payments	Coverage Rate
Less than $1,000	$666	$745	111.9%
$1,000 to $1,499	$1,240	$1,324	106.8%
$1,500 or More	$2,061	$2,117	102.7%

Table 5-17B shows the distribution of the effective coverage rate by usage level. Over 15 percent of clients with charges of $1,500 or more had 10 percent or more of their bills uncompensated.

Table 5-17B
Distribution of Effective Coverage Rate by Usage Level

Usage Level	Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Less than $1,000	0.2%	11.5%	11.3%	77.1%

Usage Level	Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
$1,000 to $1,499	0.7%	10.5%	10.7%	78.1%
$1,500 or More	0.4%	15.0%	17.4%	67.2%

Table 5-18 shows the distribution of payment source by usage level. Clients with higher usage levels had progressively larger shares of payments from USF, HEA, and Lifeline credits. Those with charges of $1,500 or more directly paid 7 percentage points more of their bill than did those with less than $1,000 in charges.

Table 5-18
Distribution of Payment Sources by Usage Level

Usage Level	Payment Source				
	Customer	USF	HEA	Lifeline	Other
Less than $1,000	43.8%	39.4%	5.1%	11.6%	0.1%
$1,000 to $1,499	38.8%	44.3%	10.2%	6.2%	0.6%
$1,500 or More	36.9%	49.9%	8.5%	3.9%	0.7%

7. Usage Level — USF Gas and Electric Combination

In this section, we examine how compliance rates vary with usage levels for USF Combination clients. Table 5-19A describes the effective coverage rate by usage level. The results for clients with USF combination benefits are similar to those for Gas-Only and Electric-Only. At higher usage levels, significant payment deficiency exists. Overall, mean charges exceed mean payments by $271 for those with $3,000 or more in charges.

Table 5-19A
Effective Coverage Rate by Usage Level

Usage	Charges	Payments	Effective Coverage Rate
Less than $1,000	$728	$799	109.8%
$1,000 to $1,999	$1,554	$1,575	101.4%
$2,000 to $2,999	$2,435	$2,397	98.4%
$3,000 and More	$3,747	$3,476	92.8%

Table 5-19B shows the distribution of effective coverage rate by usage level. Less than 50 percent of customers with bills totaling $3,000 or more had full cash coverage in the analysis year.

Table 5-19B
Distribution of Effective Coverage Rate by Usage Level

Usage Level	Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Less than $1,000	1.7%	16.9%	16.9%	64.5%
$1,000 to $1,999	2.1%	17.7%	16.4%	63.9%
$2,000 to $2,999	2.2%	18.5%	20.5%	58.8%
$3,000 and More	4.5%	25.2%	21.5%	48.7%

Table 5-21 shows the distribution of payment source by usage level. Customer payment shares are similar for each of the usage levels. USF, HEA, and Lifeline comprise approximately 55 percent of all payments made at each level.

Table 5-21
Distribution of Payment Sources by Usage Level

Usage Level	Payment Source				
	Customer	USF	HEA	Lifeline	Other
Less than $1,000	44.7%	37.4%	12.3%	5.6%	0.0%
$1,000 to $1,999	43.4%	33.5%	20.0%	3.1%	0.0%
$2,000 to $2,999	47.0%	38.8%	12.0%	2.1%	0.1%
$3,000 and More	48.3%	41.1%	9.0%	1.6%	0.1%

8. Net Energy Burden — Gas or Electric USF Recipients

The USF program targets a 3 percent energy burden for participating households for electric baseload usage and a 3 percent energy burden for gas usage. However, since the USF program is a fixed credit program, the energy burden goal is only a target. If household usage is less than expected or receives more in assistance benefits than anticipated, the household's actual net energy burden (i.e., energy burden minus USF and other assistance payments) can be less than 3 percent. If household usage is more than anticipated or the household receives less in energy assistance than expected, the household's actual net energy burden can be greater than 3 percent. Table 5-22A furnishes information on the effective coverage rate by actual net energy burden. Households with a net energy burden less than 2 percent have a very high coverage rate. Households with net energy burden at or above 2 percent but less than 6 percent have a coverage rate above 100 percent. Households with a net energy burden above 6 percent have a coverage rate just below 100 percent. The trend in average coverage rate

demonstrates that a higher net energy burden results in a lower coverage rate. However, there is not a point at which the decline in average coverage rate is precipitous.

Table 5-22B furnishes information on the distribution of effective coverage rate. The trends identified in this table are somewhat more striking. More than 80 percent of households with an effective coverage rate below 3 percent covered 100 percent or more of their annual bill. Less than 60 percent of households with an effective coverage rate at or above 8 percent covered 100 percent of their annual bill.

Table 5-22A
Effective Coverage Rate by Net Energy Burden

Net Energy Burden	Mean Charges	Mean Payments	Coverage Rate
Less than 2%	$1,065	$1,380	129.6%
2% – 3%	$1,048	$1,112	106.1%
3% - 4%	$1,147	$1,189	103.7%
4% - 6%	$1,319	$1,342	101.7%
6% - 8%	$1,510	$1,492	98.8%
Over 8%	$1,627	$1,583	97.3%

Table 5-22B
Distribution of Effective Coverage Rate by Net Energy Burden

Net Energy Burden	Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Less than 2%	0.0%	2.7%	5.3%	92.0%
2% – 3%	0.0%	6.0%	11.5%	82.5%
3% - 4%	0.0%	10.0%	13.2%	76.9%
4% - 6%	0.0%	11.6%	16.6%	71.6%
6% - 8%	0.4%	16.6%	17.4%	65.6%
Over 8%	1.0%	25.6%	16.1%	57.4%

Table 5-23 shows the distribution of payment source by net energy burden. As might be expected, households with the lowest net energy burden have the lowest customer contribution, the highest USF contribution, and the highest HEA contribution. One important benefit for these households was the LIHEAP supplemental grant furnished at the end of the HEA fiscal year.

Table 5-23
Distribution of Payment Sources by Net Energy Burden

Net Energy Burden	Payment Source				
	Customer	USF	HEA	Lifeline	Other
Less than 2%	15.3%	54.6%	20.8%	9.0%	0.2%
2% – 3%	37.4%	42.8%	6.3%	13.4%	0.1%
3% - 4%	44.0%	40.5%	5.4%	9.6%	0.5%
4% - 6%	50.1%	39.1%	4.8%	5.5%	0.5%
6% - 8%	54.1%	36.3%	5.3%	3.5%	0.8%
Over 8%	46.7%	45.0%	6.0%	1.8%	0.5%

9. Net Energy Burden — Combination Gas and Electric Recipients

For combination customers, the targeted energy burden is 6 percent of income. Table 24A furnishes information on the average coverage rate by net energy burden; while Table 5-24B furnishes information on the distribution of coverage rate. Households with an average net energy burden of 6 percent or less have an average coverage rate above 100 percent. Households with an average net energy burden above 6 percent have an average coverage rate below 100 percent. Only 43 percent of households with a net energy burden above 12 percent of income were able to pay their whole energy bill during the year.

Table 5-24A
Effective Coverage Rate by Net Energy Burden

Net Energy Burden	Mean Charges	Mean Payments	Coverage Rate
Less than 4%	$1,646	$1,853	112.6%
4% – 6%	$1,964	$2,000	101.8%
6% - 8%	$2,123	$2,105	99.1%
8% - 12%	$2,386	$2,323	97.4%
Over 12%	$2,401	$2,236	93.1%

Table 5-24B
Distribution of Effective Coverage Rate by Net Energy Burden

Net Energy Burden	Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Less than 4%	0.0%	9.0%	12.2%	78.8%
4% – 6%	0.7%	19.7%	17.2%	62.4%
6% - 8%	0.7%	18.0%	22.5%	58.8%
8% - 12%	1.8%	20.4%	21.7%	56.1%

Net Energy Burden	Coverage Rate			
	<50%	50% -<90%	90% -<100%	100% or more
Over 12%	3.8%	31.1%	21.8%	43.2%

Table 5-25 shows the distribution of payment sources by net energy burden. For households with a net energy burden of less than 4 percent of income, customer payments accounted for only 20 percent of their bill, while USF and HEA payments account for almost 80 percent. For households with a net energy burden above 6 percent of income, customer payments exceeded 40 percent of the bill.

Table 5-25
Distribution of Payment Sources by Net Energy Burden

Net Energy Burden	Payment Source				
	Customer	USF	HEA	Lifeline	Other
Less than 4%	20.3%	47.5%	29.6%	2.4%	0.1%
4% – 6%	34.5%	38.5%	24.9%	2.2%	0.0%
6% - 8%	42.8%	39.0%	15.2%	3.0%	0.1%
8% - 12%	46.1%	40.8%	10.8%	2.2%	0.0%
Over 12%	39.1%	49.9%	10.4%	0.6%	0.0%

E. Multivariate Analyses

In this section, we have presented a series of tables that measure the association between payment coverage rate and an individual factor (e.g., income, usage level, or net energy burden). However, to the extent that the factors are correlated with one another, this univariate analysis can be misleading. Consider the following example. We found that the households with the highest usage had the lowest coverage rates. In addition, we found that the households with the highest net energy burden had the lowest coverage rates. However, we also find that a household with high usage is more likely to have a high net burden; some change in the household composition might have increased the household's usage above the amount projected by the utility company and thereby increased the amount that the household needed to pay. We are left with the question of whether it is the usage level or a change in usage level that is most important for payment coverage. If usage level is most important, usage reduction is the best remediation device. If change in usage level is most important, the best remediation device might be a change in the program design.

In order to examine the most important factors associated with payment coverage, we conducted regression analysis. We examined how the characteristics of the household and their participation in the USF program was related to their effective coverage rate. The goal of this analysis was to isolate the individual impact that each of these factors had on the total

portion of charges that was covered with clients' personal payments, USF, HEA and Lifeline credits, and outstanding credits.

1. Methodology

Table 5-26 describes the variables that were used in the regression analysis. The outcome variable, effective coverage rate, has been used throughout this chapter to describe the ability of USF customers to pay their bills and describes the extent of any payment deficiency. In the development of our regression analysis model, we tested the performance of each of the variables presented in Part D of this section. In addition, we tested a multiple model approach that examines whether different types of households had different explanatory variables. Our final regression model uses the variables that had the strongest association with coverage rate.

Our final regression model has seven variables that explain (or predict) the effective coverage rate.

Table 5-26
Analysis Variables in Multivariate Regression

Analysis Variables
Dependent/Outcome Variable
Effective Coverage Rate (Expressed as a Whole Number) Calculated as: (Customer Payments + Outstanding Credits)/Customer Bills
Explanatory Variables
Participant in the Fresh Start Program
Indicator for Receipt of HEA during the Analysis Year
Total Dollar Amount of Charges in the Analysis Year
Indicator of Credit on Client's Account at the Beginning of the Analysis Year
Indicator That the Client is in a Household with Annual Income Below $10,000
Indicator That Client is in a Household with Annual Income Between $10,000 and $20,000
Indicator That the Client Lives in an Economically Distressed Community[19]
Indicator That the Client was a Budget Billing Customer of One of the Utilities for Which They Receive USF Benefits

[19] The indicator for whether a client lives in an economically distressed city was calculated using the New Jersey Municipal Distress Index, a ranking, based on eight indicators, of how "distressed" a municipality is. The indicator used in the multivariate regression was coded as 1 if a USF beneficiary lived in one of the 15 highest ranked municipalities. More information on this index can be obtained at http://www.nj.gov/dca/osg/docs/municipaldistressindex080197.pdf

In Sections B through D, outliers (payments or charges in excess of $3,000 or below $500) had been eliminated from the analysis in order to prevent extreme values from biasing the coverage rates and to allow the tables to describe the "average" subset of cases. In addition to these exclusions, the regression was also limited to USF clients with effective coverage rates of 150 percent and below as additional protection against bias.

2. Results

Table 5-27 describes the results of the regression analysis. The estimated model parameters were:

Table 5-27
Regression Results

Effective Coverage Rate =
102.9 (Constant)
- 9.7 * (Fresh Start Indicator)
+ 10.4 * (Indicator for Receipt of HEA)
- .003 * (Total Charges in the Analysis Year)
+ 6.9 * (Indicator for Beginning Credit on Account)
+ 3.7 * (Indicator for Annual Household Income Below $10,000)
+ 1.9 * (Indicator for Annual Income Between $10,000 and $20,000)
- 3.1 * (Indicator that the client lives in an economically distressed community)
+ 1.3 * (Indicator that the client has a budget billing arrangement)

All variables in the model were statistically significant at the 5 percent level, meaning that the observed relationship between the explanatory variables and the outcome variable is unlikely to occur by chance or sampling variation if there were no relationship within the population. Results from the multivariate analysis indicate that:

- Fresh Start (-9.7) - Fresh Start customers have effective coverage rates that are 10 percentage points lower than those of individuals who have never participated in the Fresh Start program.

- Receipt of HEA (+10.4) - Receipt of HEA positively influences USF customer's payment compliance. Having a HEA benefit during the analysis year increased the effective coverage rate by 10 percentage points. [Note: The USF customers in this analysis only received HEA if they reenrolled for USF and HEA during

FY 2005. As will be presented in Section 6 of this report, a large share of USF participants from October 2003 did not reenroll in USF/HEA during FY 2005.]

? Total Charges (-.003) - Increases in total charges during the analysis year decrease the effective coverage rate. The model measured that a $1,000 increase in annual charges was associated with a 3 percentage point decrease in the effective coverage rate. Households with energy bills of $3,000, on average, have a coverage rate that is 6 percentage points lower than that for households with energy bills of $1,000.

? Credit (+6.9) - Individuals with a credit on their account of at least $100 at the beginning of the analysis period had a 7 percent higher effective coverage rate than those who had arrearages or a zero balance at that time.

? Income Below $10,000 (+3.7) - USF customers in lower income brackets (with annual household income below $20,000) have higher rates of payment compliance than those with annual household income above $20,000. The lowest-income households had a coverage rate that was about 4 percentage points above the highest income group.

? Income $10,000 to $20,000 (+1.9) – USF customers in the middle income group had a coverage rate that was about 2 percentage points below the lowest group and 2 percentage points above the highest group.

? Customers living in economically distressed communities (-3.1) – USF customers residing in disadvantaged communities had lower bill coverage rates than those who were not living in these areas. These findings indicate that beyond the typical USF programming, special remediation efforts may need to be geographically targeted to address the challenges that these families face.

? Budget Billing customers (+1.3) – Customers on equal payment plans have higher rates of payment compliance than do those who do not have these arrangements. This finding suggests that utilities participating in the USF program may benefit from conducting additional outreach to customers to encourage their participation in budget billing plans. However, since the measured effect of budget billing is small, it might not be the highest priority for the program.

3. Additional Analysis

Throughout the chapter, lower rates of payment compliance for Fresh Start participants were evident in each of the analyses. A logistic regression model was tested to examine the predictive factors for Fresh Start participation. This model used a series of binary variables to create "odds ratios" that describe the probability that a USF client will be enrolled in the Fresh Start program based on certain characteristics. Table 5-28

describes the series of variables that were used in this model and the corresponding odds ratios that were computed.

Table 5-28
Analysis Variables in Logistic Regression

Analysis Variables	Odds Ratios
Dependent/Outcome Variable	
Participant in the Fresh Start Program	
Explanatory Variables	
Indicator that the client is a Lifeline-only USF recipient	.1146965
Indicator that a client had large utility bills during the analysis year ($1,500 or greater for Electric-Only or Gas-Only or $3,000 or more for Combination Gas and Electric)	1.996923
Indicator that a client resided in a household with annual income lower than $10,000	.6743916
Indicator that a client resided in a household with annual income between $10,000 and $20,000	.708662
Indicator that the client lives in an economically distressed community	2.164644
Indicator that the client had a budget billing arrangement with one of its utilities	.5165811

Results from the multivariate analysis indicate that:

? Lifeline-only (0.114) - Lifeline-only USF clients are less likely to participate in the Fresh Start program. These recipients are one-tenth as likely to need Fresh Start program benefits.

? Usage (1.99) - Clients with larger utility bills are more likely than those with smaller utility bills to participate in the Fresh Start program. The model showed that the presence of larger bills makes USF clients about twice as likely to need Fresh Start program benefits.

? Income (0.67 and 0.71) - Individuals in lower income brackets were about 35 percent less likely to need Fresh Start program benefits than were USF clients in households with annual income above $20,000.

? Living in Economically Distressed Community (2.16) – Individuals residing in these communities are more than twice as likely as those who are not to have

accumulated arrearages that qualified them for enrollment in the Fresh Start program.

These results are quite striking:

- Elderly – Low-income elderly households that obtain Lifeline benefits have a very low nonpayment rate. Many pervious studies have found this result.

- Usage – It has also been demonstrated in other studies that high-usage households are more likely to have payment problems. However, this model shows a very significant relationship that highlights the need for usage reduction to complement payment assistance.

- Income and Distressed Communities – The combined findings with respect to these variables suggest that it is both a household's income and the household's other economic resources (e.g., family) that affect the ability to pay current energy bills.

F. Service Maintenance for USF Customers

The statistics presented in this section demonstrate that, with the assistance of HEA, Lifeline, and USF, the majority of USF customers are able to pay 100 percent of the bills that they receive each year. For the most recent year of data available, 67 percent of USF customers paid all of their USF utility bills. However, about 33 percent of USF customers did not pay 100 percent of their bills. Further, 15 percent of USF customers paid less than 90 percent of their bills and increased their arrearages by over $150. Those customers are in arrears to the utility company and are vulnerable to service termination.

It is important to know what options are being presented to these customers to resolve their payment problems without the loss of service, and to understand how many customers who face these problems are losing service. In this section, we present statistics that characterize the dimensions of this problem, including:

- Arrears – Number and percent of USF customers who are in arrears.

- Termination Eligibility – Number and percent of USF customers who are eligible for service termination.

- Termination – Number and percent of USF customers who had a service termination.

- Reconnection – Number and percent of USF customers who had service reconnected after a termination.

- Reconnection Rate – Percent of USF customers with service terminations that were reconnected.

? DPA – Number and percent of USF customers who were offered deferred payment agreements to resolve a payment problem.

Table 5-30 presents the complete set of statistics for the electric utility companies for June 2005. It shows that about one-fourth of USF customers were in arrears (i.e., had at least one bill that was overdue). Each electric utility appeared to employ a different strategy for addressing USF customers with overdue accounts.

? In June 2005, JCP&L sent termination notices to almost 1,500 USF customers, about 30 percent of those in arrears, and made collection visits to almost 200 USF customers. Service was terminated for 36 customers. Since 75 percent of JCP&L customers with terminations had service reconnected, the net disconnection number for June 2005 was 9 USF customers.

? In contrast, ACE sent notices to only 157 customers, terminated service for only 13, and had a net disconnection number of 7.

? Rockland sent notices to 15 customer; they disconnected all of them. By any measure, the number of net disconnections of customers is small. However, the number of customers in arrears is large and needs attention.

Table 5-29
Service Maintenance Statistics for USF Customers by Utility

Statistic for June 2005		ACE	JCP&L	RE
USF Customers		17,083	19,457	344
In Arrears	Number	4,846	4,768	66
	Percent	28.4%	24.5%	19.2%
Sent Notice	Number	157	1,454	15
	Percent	0.9%	7.5%	4.4%
Eligible for Termination	Number	24	197	15
	Percent	0.1%	1.0%	4.4%
Service Termination	Number	13	36	15
	Percent	<0.1%	0.2%	4.4%
Service	Number	6	27	0

Statistic for June 2005		ACE	JCP&L	RE
Reconnection	Reconnection Rate	46.2%	75.0%	0.0%
DPA Agreements	Number	232	*	2
	Percent	1.4%	*	0.6%
*These data are available, but were not included in the report we received.				

SOURCE: Monthly utility collection reports filed with the BPU.

Table 5-30 presents the complete set of statistics for the gas utility companies for June 2005. It shows that as many as 40 percent of USF customers were in arrears (i.e., had at least one bill that was overdue). Most of the utilities presented in Table 5-30 sent a large number of notices. However, the utilities terminated service for a very small percentage of USF customers and a small percentage of USF customers who were sent notices.

Table 5-30
Service Maintenance Statistics for USF Customers by Utility

Statistic for June 2005		ETG	NJNG	PSE&G	SJG
USF Customers		7,123	11,567	76,658	14,149
In Arrears	Number	175	4,631	32,898	2,564
	Percent	2.5%	40.0%	42.9%	18.1%
Sent Notice	Number	512*	2,585	20,389	2,998*
	Percent	7.2%	22.3%	26.6%`	21.2%
Eligible for Termination	Number	11	96	691	177
	Percent	0.2%	0.8%	0.9%	1.3%
Service Termination	Number	11	47	325	177
	Percent	0.2%	0.4%	0.4%	1.3%
Service Reconnection	Number	41	31	275	0
	Reconnection Rate	>100%	66.0%	84.6%	0%
DPA	Number	60	463	2,364	**

Statistic for June 2005		ETG	NJNG	PSE&G	SJG
Agreements	Percent	0.8%	4.0%	3.1%	**
* Disconnection notices exceeds customers in arrears. We are checking this statistic.					
** These data were not available in the report that we received.					

SOURCE: Monthly utility collection reports filed with the BPU.

In Section IV of this report, we furnished information on the series of communications that were sent from DHS, the LIHEAP intake agencies, and the utilities to USF customers. A greater number of communications was focused on two groups. First, households that had not reenrolled for USF were sent communications by DHS. Second, households that were not on track for obtaining 100 percent of their Fresh Start forgiveness were sent notices by the individual utility companies.

G. Results and Remediation Alternatives

The payment coverage analysis demonstrates a high rate of payment compliance. Households that did not need Fresh Start program benefits (i.e., did not have arrears at the start of the USF program), were the most successful. Over 80 percent of these customers paid 100 percent of their utility bills; an additional 15 percent of these customers covered 90 to 100 percent of their utility bills. Only 5 percent of these customers covered less than 90 percent of their bills.

Households that needed Fresh Start benefits (i.e., had arrears at the start of the USF program) also achieved some success. About 40 percent of these customers paid 100 percent of their utility bill, while an additional 25 percent of these customers paid 90 to 100 percent of their utility bill. However, about 35 percent of these customers paid less than 90 percent of their bill in the analysis year.

The basic finding of the payment compliance analysis is that most customers are paying most of their bills. However, the analysis also shows that there are a considerable number of households that are still having difficulty paying their bills, even though they are enrolled in the USF program. It is important to develop a remediation mechanism to address this issue.

The analysis shows that there are some factors that are directly related to coverage of the utility bill.

- HEA Benefits – Households that did not reapply for HEA benefits had a more difficult time paying their bills.

- Fresh Start Customers – Households that had payment problems prior to enrollment in USF continued to have a difficult time paying their bills, even with the USF benefits.

- Usage – Households with higher usage had a more difficult time paying their bills.

- Economically Distressed Communities – Households in economically distressed communities had a more difficult time paying their bills.

In the development of a remediation strategy, it is appropriate to consider strategies that are targeted at these issues.

In the last year, the USF program ran two pilot programs.

- JCP&L ran a pilot program with Dollar Energy to make calls to Fresh Start customers to inform them of the benefits of the USF and Fresh Start programs, and to encourage them to make their payments. The evaluation of that program demonstrated that those customers who were contacted by Dollar Energy had a higher payment compliance rate than did those who were not contacted. Moreover, from the evidence available, it appeared that this was a cost-effective approach to assisting Fresh Start customers. However, the evaluation also showed that program improvements may have resulted in higher program success rates.

- PSE&G ran a pilot program with NJ SHARES in which Fresh Start participants were invited to a workshop to inform them of the benefits of the USF and Fresh Start programs, and to help them develop strategies for paying their bills. The evaluation showed that workshop participants thought that the workshop was valuable. However, the evaluation was not able to establish that the program was a cost-effective approach to assisting Fresh Start customers.

The goal of remediation activities for the USF and Fresh Start programs is to increase the percentage of USF customers who meet 100 percent of their payment obligations each year. Based on the findings in this section, the information presented on program accessibility, and the findings from the pilot, it appears that three activities might be cost-effective.

- HEA Participation – The regression analysis demonstrated that USF payment coverage rates are higher for those households that receive their HEA benefits in the year after enrolling in USF than for those that do not. Procedures that increase this reapplication rate are likely to increase the percentage of households that cover 100 percent of their payment obligations.

- Usage Reduction – The regression analysis demonstrated that USF payment coverage rates are lower for households with high usage. If these high-usage households were targeted by the Comfort Partners Program, the payment coverage rates would be likely to increase for these households.

- Fresh Start Strategy – The JCP&L pilot shows that an active communication strategy with Fresh Start customers appears to improve payment compliance for these households. Evidence suggests that a statewide communication program targeted at Fresh Start customers would be a cost-effective approach to increasing payment compliance rates.

In addition to the Fresh Start pilots, another pilot program was implemented during 2005. South Jersey Gas started a program in September 2005 that put a sample of USF customers on an equal monthly payment plan. Other programs have demonstrated that an equal monthly payment is effective in helping clients to make their payments. However, the results of that pilot will not be available until October 2006. However, given the evidence from other programs, it may be appropriate for the USF program to consider a strategy that gives the client an equal payment throughout the year.

As part of the development of an equal payment plan, the USF program might consider distributing all benefits on a monthly basis. Consider the following example.

Assume that a customer has a $2,400 combined energy bill for the year. Assume that the customer qualifies for a $600 HEA grant and a $600 USF benefit. The customer would be required to pay $2,400 per year.

- *Option 1 – The client is placed on a $200 per month equal payment plan. With the USF benefit of $50 per month, the client is required to pay $150 per month. If the customer receives the $600 HEA in a lump sum, the customer is required to make no payments for four months and to make a $150 payment for eight months*

- *Option 2 – The client is placed on a $200 per month equal payment plan. With the USF benefit of $50 per month, the client is required to pay $150 per month. If the customer receives the $600 HEA as twelve equal payments, the customer is required to make a $100 payment for twelve months.*

It is possible that an equal payment plan of the type offered by Option #2 is the best approach for helping clients to make consistent payments over time. However, there is no existing research that furnishes evidence that this approach is effective.

The USF program attempts to offer clients an affordable payment. The program is successful for many clients. However, it appears that there are program modifications that could increase its success rate. In addition, the program could test some additional alternatives for becoming even more successful.

VI. Program Retention

The fourth set of evaluation questions posed by the BPU relates to program retention by USF customers. The BPU has asked:

- ? What percentage of clients reenrolled in the program?
- ? What factors are associated with a failure to reenroll?
- ? Explain whether or not there are appropriate remediation procedures.

To answer these questions, we conducted an analysis of the OIT USF/HEA database that can directly measure program retention rates and used data from the USF customer survey.

A. Reenrollment Requirements

There are two ways that a USF participant can reenroll in the USF program. First, the household can complete a USF/HEA application and mail or take it along with verification documents to a local USF/HEA intake agency. Second, any household that applied for Food Stamps and completed the HEA application information on the Food Stamp form will be screened for USF eligibility. A household was assigned USF benefits if the USF screening process determined that the household was eligible for benefits.

The households analyzed in this section were originally enrolled in the USF program in October 2003. These households were automatically screened for USF eligibility based on their HEA records from 2003 and energy bills furnished by their utility company(ies). They were assigned a USF benefit if their net energy bills (i.e., energy bills minus HEA and/or Lifeline grants) were expected to exceed the target net energy burden threshold (i.e., 3 percent of income for gas or baseload electric; 6 percent of income for electric heat).

Households enrolled in the USF program in October 2003 were then screened for the Fresh Start Program in April 2004. If they had arrears of $60 or more, they were eligible for a one-time forgiveness of those arrears if they made all of their required payments for the next year. For that reason, households enrolled in the USF program in October 2003 had their USF benefit extended to March 2005.

During the FY 2005 enrollment period (November 2004 to September 2005), there was a backlog of USF/HEA applications at the local intake agencies. Many of the October 2003 enrollees applied to reenroll in the USF program. However, since there was a backlog of applications, some participants did not have their application processed when their USF benefits were scheduled to expire. As a result, USF participation was extended to September 2005 so that all outstanding applications could be processed.

In this analysis, we are examining households that received 24 months of USF benefits, from October 2003 to September 2005. Such households would have been reenrolled in the USF program if they directly applied for HEA during the period from November 2004 to September 2005, or if they applied for Food Stamps between June 2004 and September 2005.

B. Overall Reenrollment Rates for October 2003 Participants

There are a number of reasons why an October 2003 USF participant would no longer be receiving USF benefits, including:

- Income – The household's income may not be above the eligibility threshold (i.e., 175 percent of poverty).
- Net Energy Burden – The household's net energy burden might have fallen below the target standard (i.e., 3 percent of income) because the household's income increased or the household's energy bill fell.
- Failure to Apply – The household may have been eligible for benefits but failed to apply for the program.
- Failure to Meet Application Requirements – The household may have applied for the program and may have been eligible for benefits, but may have failed to furnish all of the documentation required for program enrollment.

Using the available data from the USF/HEA database download, we were able to develop the following measurements.

- Reenrollment Attempt Rate – What percent of USF participants attempted to reenroll in the USF program?
- Eligible Reenrollment Attempt Rate – What percent of USF participants attempted to reenroll in the USF program and were deemed to be income eligible?
- Reenrollment Rate – What percent of USF participants successfully reenrolled in the USF program?

The reenrollment attempt rate for the October 2003 participants was about 64 percent. About two-thirds of USF clients at least attempted to complete a USF application. About two percent of these clients were reported to be income ineligible.

The overall reenrollment rate for October 2003 USF participants was 44 percent. This suggests that as many as 18 percent of USF participants applied for the USF program, but were not successful in completing the application. These statistics raise two concerns. First, relatively few household were aware of their USF participation and even fewer were aware

of the program reenrollment requirements. This probably contributed to the failure of one-third of USF participants to reenroll in the program. Second, about one in five USF participants applied for the program but did not successfully complete an application. This is consistent with the reports from the intake agencies that it was difficult for them to reach clients with incomplete applications.

C. Characteristics of USF Participants by Reenrollment Status

The tables in this section describe the characteristics of October 2003 USF recipients who reenrolled in the program in FY 2005 to assess the factors which may influence clients' interest in, need for, or accessibility to continued participation in the USF program. Overall, 44 percent of October 2003 USF recipients received USF benefits in FY 2005. Of the 6,658 USF clients who the OIT USF/HEA sample showed to be receiving benefits in October 2003, 2,904 were assigned benefits again in FY 2005.

The following tables examine specific reenrollment rates for clients by the following characteristics: poverty level, income level, gross energy burden, vulnerability group, public assistance receipt, and household size.

Table 6-1 describes the reenrollment rates for USF customers by the depth of clients' poverty. USF customers in households with income above 150 percent of Federal Poverty Guidelines were significantly less likely to reenroll in USF. Eighty-four percent of USF clients in this group did not receive benefits in FY 2005. It is reasonable that the households closest to the income cutoff for USF were the least likely to reenroll. A modest increase in household income could make the household ineligible for the program. However, even among those households with a high probability of maintaining eligibility (i.e., households with income at or below the poverty line), the reenrollment rate was only about 50 percent.

Table 6-1
Percent of October 2003 USF Participant Households Reenrolling in FY 2005, By Poverty Level

Poverty Level	Reenrolled in FY 2005	
	Number of Households	Percent of Households
Income At or Below 100% (n=3,442)	1,822	52.9%
Income Over 100% to 150% (n=1,909)	918	48.1%
Income Above 150% (n=1,279)	161	12.6%
ALL PARTICIPANTS (n=6,658)	2,901	43.6%

Examination of proportion of USF clients at four levels of household income yields similar results. USF clients in households with income at or above $30,000 reenrolled at

substantially lower rates than did those with income below $20,000. Table 6-2 presents these rates.

Table 6-2
Percent of October 2003 USF Participant Households Reenrolling in FY 2005, By Income Group

Income Group	Reenrolled in FY 2005	
	Number of Households	Percent of Households
$0 to less than $10,000 (n=2,970)	1,320	44.4%
$10,000 to less than $20,000 (n=2,827)	1,299	45.9%
$20,000 to less than $30,000 (n=711)	246	34.6%
$30,000 or more (n=150)	39	26.0%
ALL PARTICIPANTS (n=6,658)	2,904	43.6%

Tables 6-3 and 6-4 examine reenrollment rates for USF clients with four levels of gross electric and gas energy burdens. Gross energy burden was calculated using the energy burden that utilities provided to OIT in the USF benefit determination process; it is defined as the portion of income that is currently being paid by customers for utility service.

Table 6-3
Percent of October 2003 USF Participant Households Reenrolling in FY 2005, By Gross Energy Burden for USF Gas Recipients

Gross Energy Burden	Reenrolled in FY 2005	
	Number of Households	Percent of Households
3% to less than 5% (n=332)	131	39.5%
5% to less than 10% (n=1,488)	791	53.2%
10% to less than 15% (n=1,039)	590	56.8%
15% or more (n=1,413)	722	51.1%

Table 6-3 describes the reenrollment rates for recipients of USF gas benefits. USF gas recipients with larger burdens had higher-than-average reenrollment rates. Those with gross energy burdens of greater than 5 percent were significantly more likely than those with burdens of less than 5 percent to reenroll. However, households with a gross energy burden greater than 15 percent of income clearly need the program. Yet, the program reenrollment rates for this group are only about 50 percent.

Table 6-4 describes reenrollment rates for USF clients receiving electric benefits. Slightly more than half of all clients with gross energy burdens of 5 to 15 percent enrolled in USF again in FY 2005. Approximately 43 percent of those with less than 5 and greater than 15 percent of their income being used to pay electric bills reenrolled.

Table 6-4
Percent of October 2003 USF Participant Households Reenrolling in FY 2005, By Gross Energy Burden for USF Electric Recipients

Gross Energy Burden	Reenrolled in FY 2005	
	Number of Households	Percent of Households
3% to less than 5% (n=1,589)	678	42.7%
5% to less than 10% (n=2,144)	1,091	50.9%
10% to less than 15% (n=750)	380	50.7%
15% or more (n=976)	415	42.5%

Table 6-5 presents the reenrollment rates for two key groups of vulnerable USF recipients – households with an elderly member and households with a young child. [Note: The analysis of households with an elderly member does not include the Lifeline-only households. Lifeline-only households are automatically reenrolled under current program rules.] Over three-fourths of households with an elderly member and over 60 percent of households with children reenrolled in the USF program during FY 2005.

Table 6-5
Percent of October 2003 USF Participant Households Reenrolling in FY 2005, By Vulnerability Group

Vulnerability Group	Reenrolled in FY 2005	
	Number of Households	Percent of Households
Elderly Household Member (n=1,524)	1,152	75.6%
Households with Young Child (n=656)	412	62.8%
ALL PARTICIPANTS (n=6,658)	2,904	43.8%

SSI recipients and USF clients receiving TANF or Food Stamp benefits were also likely to reenroll in USF in FY 2005. For both groups, about three-fourths of USF participants reenrolled in the program in FY 2005. Table 6-6 presents these findings.

Table 6-6
Percent of October 2003 USF Participant Households Reenrolling in FY 2005, By Public Assistance Receipt

Vulnerability Group	Reenrolled in FY 2005	
	Number of Households	Percent of Households
SSI Receipt (n=881)	684	77.6%
Public Assistance Receipt* (n=3,132)	2,291	73.1%
ALL PARTICIPANTS (n=6,658)	2,904	43.8%

*Food Stamps and/or TANF

D. Remediation Alternatives

The USF program reenrollment rates are low. It appears that the low reenrollment rates do not result, for the most part, from households becoming ineligible for program benefits. Rather, households fail to apply for the program or fail to complete all of the application requirements. This suggests that two actions are appropriate.

? Communications Strategy – In the Program Accessibility section of this report, we suggest that the USF program needs to develop a communication strategy. While the number of communications is significant, the client awareness of these communications is low. These communications need to be improved to ensure that clients understand program participation requirements.

? Application Completion Rates – The HEA/USF intake agencies that we interviewed estimated that as many as 50 percent of all applications they received were incomplete. In the Program Accessibility section of this report, we discussed ways to improve application completion rates. First, by reducing application requirements, clients would be more likely to fulfill the requirements the first time. Second, by giving the intake agency the resources that they need to proactively communicate with clients, a greater percentage of these incomplete applications could be resolved.

It appears that many of the USF participants who did not reenroll in the program remain eligible for program benefits. For such participants, it is important to maintain program participation so that they do not fall back into debt on their utility bills. These remediation strategies are important if the USF program is to maintain assistance for households that remain in need.

VII. Client Program Impacts

The fifth set of evaluation questions posed by the BPU relates to the impact of the USF program on participants. The BPU has asked:

- To what extent does the program make participants' energy burden affordable?
- Is the size of the benefits under USF and Fresh Start appropriate; if not, how should it be changed?
- Do USF and Fresh Start enable households to reduce preprogram arrearages? Are customers successful under the Fresh Start program, and why and why not?
- Explain whether or not the USF increases the household's ability to maintain service.
- How are client disputes resolved with respect to eligibility, the amount of monthly credit, and application of Fresh Start credits?
- Explain whether or not the program reduces the other consequences of high energy bills.
- What impact does the program have on clients' energy usage?
- Are clients satisfied with the program and, if not, why?

To answer these questions, we have conducted an analysis of the utility billing and payment data for USF customers and used data from the USF customer survey.

A. Energy Bill Affordability

Average annual income for USF-participant households is about $12,000. With so little income, it is a challenge for these households to meet their financial obligations. As we present the results of the USF customer survey, it will become clear that, even with the USF program benefits, many of these households perceive that they still have a challenging time paying their energy bill. However, as we expand the analysis to discuss program outcomes such as service termination rates, it is clear that the program is having a significant impact on program participants.

One way to assess the USF program impact is to compare the survey results for USF program participants in other states in the Northeast. The National Energy Assistance Directors' Association (NEADA) conducted the National Energy Assistance Survey in 2003 and 2005. The survey included a number of other states in the Northeast Census Region. In this section, we compare the results for New Jersey USF participants to HEA participants from other states in the Northeast.

1. USF Program Benefits

The USF program design targets a 3 percent net gas burden and a 3 percent net electric burden for USF participants. [Note: The net gas burden is the household's gas bill minus available HEA and Lifeline benefits, divided by income.] The median gross electric burden for USF recipient households is 8 percent and the median gross gas burden for eligible households is 11 percent. With USF, HEA, and Lifeline benefits, the combined energy burden is targeted to be cut to about 6 percent for program participants. It is clear that furnishing such benefits to low-income households makes their energy bills more affordable. The analysis in the payment compliance section shows that, on average, the USF program paid about 40 percent of client energy bills during the analysis period.

The USF program does not guarantee that a household pays the target energy burden. To have an energy bill at or below the target, a household must apply for HEA and Lifeline benefits, the household's energy bill must stay at the level projected by the household's utility company, and the household's income must stay at the level projected in the HEA application. Using actual data on energy bills and receipt of energy assistance, we can compute the effective burden for USF participants.

Tables 7-1A through 7-1C show the number and percent of program participants (based on the sample of Lifeline-only, October 2003, and April 2004 recipients analyzed in Section V) in each net energy burden group for electric USF customer, gas USF customers, and combination USF customers. It also shows the average effective coverage rate for each group.

While a significant portion of USF population has effective energy burdens that closely resemble the targeted amount for their bills, the proportions for each of the benefit types that exceed the targeted amount is large. The actual energy burden is similar (within 1 percent for single utility USF customers and 2 percent for combination USF customers) to the target energy burden for 41 percent of Electric-Only USF customers, 29 percent of Gas-Only USF customers, and 38 percent of combination customers. It is higher than the target energy burden for 40 percent of Electric-Only USF customers, 48 percent of Gas-Only customers, and 45 percent of Combination customers.

USF customers with energy burdens that exceed the targeted amount have lower rates of payment compliance than those with lower energy burdens. On average, electric USF customers with effective energy burdens greater than 4 percent fall short of their annual bills by 1 percent and combination customers with effective energy burdens of greater than 8 percent have an annual shortfall of 4 percent of their annual bill. However, gas USF customers with the highest effective energy burdens (greater than 4 percent) are still able to cover 101 percent of their annual bill.

Table 7-1A
Net Energy Burden
Electric USF Customers

Net Energy Burden	Number of Participants	Percent of Participants	Coverage Rate
Less than 2%	267	14.7%	127.1%
2% – 4%	749	41.3%	102.6%
Over 4%	797	44.0%	99.1%

Table 7-1B
Net Energy Burden
Gas USF Customers

Net Energy Burden	Number of Participants	Percent of Participants	Coverage Rate
Less than 2%	170	22.7%	133.0%
2% – 4%	217	28.9%	110.4%
Over 4%	363	48.4%	101.0%

Table 7-1C
Net Energy Burden
Combination USF Customers

Net Energy Burden	Number of Participants	Percent of Participants	Coverage Rate
Less than 4%	557	16.7%	112.6%
4% - < 8%	1,275	38.2%	100.0%
Over 8%	1,507	45.1%	95.5%

2. Client Perceptions of Affordability

We started the USF customer survey with questions about their estimate of the size of their electric and gas bill. We wanted to know whether they would report on the total amount of the bill or the net amount that they had to pay after receipt of assistance. The survey results suggest that customers focus on their gross bill, not their net bill.

Table 7-2 shows the average gross bill, the average net bill, and the average client estimate of his or her bill from the customer survey. It is clear from this table that, in response to this question, the customer is furnishing an estimate of their gross bill, not the amount that they are required to pay after receiving assistance. It is also interesting to note that clients appear to have a good understanding of the size of their energy bills.

Table 7-2
Actual vs. Perceived Energy Bills

Usage Group	Gross Bill	Net Bill	Survey Estimate
Electric USF	$1,207	$482	$995
Gas USF	$1,352	$562	$1,325
PSE&G Combination	$1,743	$1,045	$1,920

Given these perceptions of their energy bills, it is not surprising that USF customers are very concerned about the affordability of their bills. The customer survey asked customers to report on their concerns about paying bills, whether they had to skip paying a bill, and whether they need additional assistance. The findings include:

? Worry – About 60 percent of USF households worry "some months" or "almost every month" about paying the bill on which they are receiving USF benefits.

? Skip Paying Bills – About 40 percent of natural gas customers, 50 percent of electric customers, and 60 percent of combination customers reported that they had to skip paying their bill "some months" or "almost every month."

? Additional Assistance – About 50 percent of natural gas customers, 70 percent of electric customers, and 85 percent of combination customers indicate they need additional assistance to pay their energy bills.

It is clear that energy bills remain a challenge of USF customers, even though they receive USF benefits. However, it is not difficult to put that challenge into perspective. In 2003, the median household income in New Jersey was about $56,000. If a household with the median income is paying 6 percent of income for energy (the USF target) the household pays an energy bill of about $3,360 annually or about $280 per month. Though many households are receiving winter gas bills this year that approach or exceed that amount, the monthly average for NJ households is significantly lower than $280 per month. So, it is not surprising that, even though the USF program has made energy bills considerably more affordable, the majority of USF participants still perceive that their bills are difficult to pay.

The survey also asked clients to tell us what made it difficult for them to pay their energy bills. We grouped the responses into four categories – not enough income, size of energy bills, other problems (e.g., loss of job, medical bills, other bills, and physical disability), and no difficulty. For those households that had difficulty paying their bills, the primary reason reported was simply that they did not have enough income. When combined, the other reasons for not paying are also important. It does not appear that very many USF participants perceive that high energy bills are the primary source of their difficulty in paying those bills. For PSE&G combination customers, 16 percent

report that "loss of a job" affected their ability to pay, while 15 percent reported that high medical bills affected their ability to pay.

Table 7-3
Cause of Bill Paying Problems

Usage Group	No Problem	Not Enough Income	Energy Bills Too High	Other Reasons
Electric USF	33%	34%	17%	26%
Gas USF	32%	45%	16%	29%
PSE&G Combination	0%	41%	7%	36%

USF clients simply perceive that their energy bills are high and they are getting higher. A particularly interesting response came from households that began receiving USF benefits in FY 2005. About two-thirds of these households reported that their energy bills are higher this year than they were last year. This is further evidence that program participants are focusing on their gross bill, rather than on their net bill.

3. Impact of Affordability Problems

To try to get beyond client perceptions, we asked USF participants to report on specific problems that had occurred in the last year. The battery of questions used was developed for the National Energy Assistance Survey. Therefore, the results for USF participants can be compared to the results for HEA participants in other states.

Table 7-4 furnishes information for four groups: NJ HEA recipients that were enrolled in USF in October 2003, April 2004, and September 2004; NJ HEA recipients who were enrolled in USF in FY 2005; nonelderly LIHEAP recipients in the Northeast who responded to the 2005 Energy Assistance Survey; and, nonelderly LIHEAP recipients in the U.S. who responded to the 2005 National Energy Assistance Survey. The table shows the actions that the household had to take "some months" or "almost every month" to make energy bills affordable.

The table shows that households that were on the USF program for all of the previous twelve months (i.e., USF - Original), were less likely to have some of the energy insecurity actions than those who were only on the USF program for part of the year (i.e., USF – FY 2005). For example, about 33 percent of the original USF clients reported borrowing money to pay energy bills "some months" or "almost every month," while 43 percent of new USF clients did. About 16 percent of original USF clients report using their stove or oven to furnish heat, while 29 percent of new USF clients reported this. However, in both groups, about one-third of clients needed to close off part of their home to make energy bills more affordable.

By comparing the results in table 7-4 for the "USF – Original" group to the "Northeast LIHEAP recipient" group, we can see if there is any indication that the USF program significantly reduced the level of energy insecurity actions for participants, when compared to LIHEAP recipients in other states in the Northeast region. For most energy insecurity actions the difference between NJ USF participants and Northeast Region LIHEAP recipients are small. NJ USF recipients are less likely to have to reduce expenses for basic household necessities (53 percent compared to 61 percent), are more likely to keep the temperature at an unsafe or unhealthy level (32 percent compared to 12 percent), and are more likely to fail to repair or replace a broken air conditioner (24 percent to 13 percent). However, from this comparison, there is no evidence that the USF program has significantly reduced the level of energy insecurity actions.

Table 7-4
Energy Insecurity Actions

Usage Group	Survey Group			
	USF – Original	USF – FY 2005	Northeast LIHEAP Recipients	National LIHEAP Recipients
Reduce expenses for basic household necessities	53%	65%	61%	68%
Borrow to pay utility bill	33%	43%	28%	33%
Close off part of home	31%	32%	26%	27%
Keep temperature at unsafe or unhealthy level	32%	40%	12%	17%
Left home for part of the day	13%	23%	11%	15%
Used kitchen stove or oven for heat	16%	29%	14%	19%
Failed to repair or replace broken main heating system	11%	13%	7%	11%
Failed to repair or replace broken air conditioner	24%	30%	13%	14%

A second set of questions focuses on the potential health impacts of unaffordable energy bills. The findings from this table furnish more direct evidence of the USF program impact. Only 13 percent of USF – Original program participants perceived that they experienced an illness due to the temperature of their home, compared to 31 percent of new USF participants. Similarly, the USF – Original groups was 8 percentage points less likely to "go without food for at least one day" and was 13 percentage points less likely to go without prescription medicine. On other measures, related to shutoffs, going without needed medical care, and going without needed dental care, the results were similar for the two groups.

Compared to Northeast Region LIHEAP recipients, USF participants had a lower rate of reported shutoffs, were less likely to have illness due to home temperatures, were less likely to go without food for at least one day and were less likely to go without prescription medicine.

Table 7-5
Energy Insecurity Impacts

Usage Group	Survey Group			
	USF – Original	USF – FY 2005	Northeast LIHEAP Recipients	National LIHEAP Recipients
Had shutoff	3%	5%	9%	12%
Illness due to home temperature	13%	31%	22%	27%
Went without food for at least one day	16%	24%	21%	27%
Went without needed medical care[20]	28%	29%	39%	45%
Went without needed dental care	37%	37%		
Went without prescription medicine	26%	39%	34%	37%

These survey results suggest that the USF program is having some beneficial impacts on the health, safety, and financial stability of USF clients. Clients who were on the USF program for the last 12 months are less likely to have many of the adverse consequences of unaffordable energy bills. However, even the significant benefits provided by the NJ USF program cannot completely eliminate the negative consequences associated with energy affordability problems.

4. Findings on Affordability

BPU is interested in learning whether the USF program makes energy bills affordable for USF clients and whether the size of USF benefits is appropriate. The survey results suggest the following answers to those questions.

? Benefits – The NJ USF program offers significant benefits to low-income households. The combination of USF, HEA, and Lifeline pays an average of about 60 percent of their total energy bill. USF benefits cover about 40 percent of the total energy bill for USF clients.

[20] NEADA survey respondents were asked to indicate whether they went without medical care *or* dental care.

? Net Burden – While the USF program targets total electric and gas burden of 6 percent of income, the program does not guarantee that clients will reach that target. Moreover, payment coverage rates fall significantly for those who exceed the targeted net energy burden. The program might be able to improve affordability by working to make customer net energy burdens more consistent with the targeted percentage.

? Perceptions – Despite the significant benefits, a large share of clients (over two-thirds) perceive that they still need more assistance to pay their energy bills. However, since many clients are not aware of the USF benefits that they receive, it is difficult to tell if the clients are reporting that they need more assistance with their gross energy bill or with their net energy bill.

? Impacts – The energy insecurity questions demonstrate that some clients perceive that they have the ability to pay their energy bills without taking unhealthy or unsafe actions, while others need to go without needed medical care, needed dental care, or prescriptions, to pay their energy bills, even after they receive USF benefits. The USF program appears to reduce, but not eliminate, those problems.

These findings furnish an ambiguous answer to the BPU's questions. They show that the USF program has a significant positive impact on energy affordability, but that they do not eliminate the problems associated with unaffordable energy bills for all clients. Further, there is some evidence that, even with higher benefits, many of those problems still would not be eliminated. Many households have problems that go well beyond their energy bills and have a need for broader assistance.

Given these findings, the following strategy seems to be the most appropriate for the BPU.

1. Communication – Work to develop an effective communication procedure that helps clients to understand their responsibilities under the USF program and take maximum advantage of the opportunities available under USF.

2. Consistency of Net Energy Burden – Continue to refine USF procedures so that clients with ongoing energy affordability problems are able to achieve the targeted net energy burden by receiving all of the assistance for which the are eligible, maintaining USF program benefits, and keeping usage at the projected level. The BPU does not guarantee that clients achieve the 6 percent of income net energy burden. However, the program should have mechanisms in place that help clients to achieve that result.

3. Counseling and Referral – Develop a counseling and referral system for USF customers that: identifies those USF clients who still have problems paying their bills; assesses whether the problem in energy-related (i.e., net burden is higher than projected) or is a result of broader household issues; works to resolve

problems for clients with energy-related problems; and, refers households with broader problems to appropriate support systems.

The BPU could decrease the target net energy burden and increase level of USF benefits. However, in the long run, it is not clear that this approach best meets the BPU's goals. The BPU would like to continue to reduce the energy affordability problems for low-income households. If the BPU did that by reducing the target percentage of income, it would be furnishing benefits to all households, including those that currently do not exhibit energy affordability problems. However, if the BPU focused those same funds on other USF activities, including improvements in communication, program administration, and counseling and referral, the benefits would be targeted to those USF clients who do exhibit energy affordability problems.

B. USF Impact on Customer Arrearages

There are two components of the USF program impact on arrearages. First, the program has the potential to eliminate preprogram arrearages through the Fresh Start program. Second, the program has the potential to reduce current bill arrearages by reducing the amount that customers pay on current bills. In this analysis we will show that both components of the program were successful in reducing customer arrearages.

1. Impact of Fresh Start on Preprogram Arrearages

In this analysis, we will look at the components of Fresh Start success for USF participants. Clients who were enrolled in the USF program in October 2003 and April 2004 were enrolled in the Fresh Start program in April 2004. At that time, any client who had an outstanding balance of $60 or more had that balance suspended. In the USF program, Fresh Start forgiveness is granted to customers if they pay their current year bills. Both groups had completed their Fresh Start grace period by the data download date and were, therefore, eligible for complete Fresh Start forgiveness of preprogram arrears.

Table 7-6 shows the share of USF customers who received Fresh Start benefits. A relatively small percentage of the Lifeline-only enrollees needed the Fresh Start Program Benefits. However, almost half of the households enrolled in the USF program in October 2003 participated in the Fresh Start program. Overall, about 40 percent of USF participants received Fresh Start benefits.

Table 7-6
Fresh Start Population for October 2003 and April 2004 Clients

Group	USF Participants	Fresh Start Participants	Participation Rate
Lifeline Only	2,314	228	9.9%

Group	USF Participants	Fresh Start Participants	Participation Rate
October 2003 Enrollees	5,483	2,622	47.8%
April 2004 Enrollees	1,245	753	60.5%

Table 7-7 shows the mean forgiveness rate for Fresh Start customers, Table 7-8 shows the percent of customers who received 100 percent forgiveness, and Table 7-9 shows the distribution of Fresh Start forgiveness. Fresh Start participants started with about $600 in arrears and eliminated almost 90 percent of those arrears through Fresh Start. About three-fourths of program participants achieved 100 percent forgiveness.

Table 7-7
Fresh Start Forgiveness Rates for October 2003 and April 2004 Clients

Group	Fresh Start Amount	Fresh Start Forgiveness	Forgiveness Rates
Lifeline Only	$405	$360	88.9%
October 2003 Enrollees	$651	$600	92.2%
April 2004 Enrollees	$601	$537	89.4%

Table 7-8
Fresh Start Success Rates for October 2003 and April 2004 Clients[21]

Group	Number of Fresh Start Customers	Number with 100% Forgiveness	Success Rate
Lifeline Only	213	169	79.3%
October 2003 Enrollees	2,374	1,844	77.7%
April 2004 Enrollees	635	450	70.9%

Table 7-9
Distribution of Fresh Start Forgiveness for October 2003 and April 2004 Clients

Percent Forgiveness	Lifeline Only	October 2003 Enrollees	April 2004 Enrollees
Less than 50%	3.8%	3.7%	4.2%
50% to LT 90%	3.8%	7.4%	18.4%
90% to LT 100%	13.2%	11.3%	6.5%
100%	79.3%	77.7%	70.9%

[21] Fresh Start participants who had been enrolled in the program but had inactive or final service status with their utility company and participants missing original balance or forgiveness data were not included in the tables reporting success rates and percent forgiveness received.

2. Subgroup Analysis

Tables 7-10 through 7-12 show the Fresh Start success rates for subgroups of the October 2003 population. The tables demonstrate the following:

? Customer Type: Combination customers achieved the highest Fresh Start success rate (83 percent), while gas-only customers had a success rate of only 64 percent.

? Income Group: Fresh Start success rates did not vary by income group.

? Reenrollment: Fresh Start clients who reenrolled in FY 2005 achieved higher Fresh Start success rates.

These statistics continue to show the diversity of program results that occurred in the USF and Fresh Start programs.

Table 7-10
Fresh Start Success Rates for October 2003 Clients,
By Original Benefit Type

Original Benefit Type	Number of Fresh Start Customers	Number with 100% Forgiveness	Success Rate
Electric Only	753	585	77.7%
Gas Only	427	273	63.9%
Electric and Gas	1,194	986	82.6%

Table 7-11
Fresh Start Success Rates for October 2003 Clients,
By Income Group

Income Group	Number of Fresh Start Customers	Number with 100% Forgiveness	Success Rate
LT $10,000	930	726	78.1%
$10,000 to LT 20,000	1,024	797	77.8%
$20,000 or More	420	321	76.4%

Table 7-12
Fresh Start Success Rates for October 2003 Clients,
By Reenrollment in FY 2005

Income Group	Number of Fresh Start Customers	Number with 100% Forgiveness	Success Rate

Income Group	Number of Fresh Start Customers	Number with 100% Forgiveness	Success Rate
Reenrolled in FY 2005	1,305	1061	81.3%
Did Not Reenroll	1,069	783	73.2%

3. Impact of USF Program on Arrearages

One goal of the USF program is to reduce or eliminate arrearages (i.e., overdue accounts) for low-income households. In this analysis, we present information on the reduction in arrearages that was achieved through the USF program. In this analysis, we focus on three groups: Lifeline-only clients, USF/HEA clients first enrolled in October 2003, and USF/HEA clients first enrolled in FY 2005. In the analysis, we separate the Lifeline-only clients from the USF/HEA clients because the beginning of program balances for Lifeline-only households are much lower than those for HEA households. We include the FY 2005 clients in the program as a "comparison" group; changes for FY 2005 clients prior to FY 2005 are attributed to factors other than USF program participation. Other caveats associated with the analysis include:

- Analysis Attrition - Only USF customers with account balance data for September 2003 (April 2004 for PSE&G), September 2004, and August 2005 were included in the following analysis.[22]

- For PSE&G customers, April 2004 balance data were obtained from the status data file. For Fresh Start customers, the April 2004 balance was populated with original Fresh Start balance data. For non-Fresh Start customers, the balance was $0. [This special procedure was applied to PSE&G because transaction data for the period September 2003 to September 2004 were not available for the majority of clients.]

- Three utilities did not submit the account balance information associated with each transaction. For these utilities, the most recent balance was used with each transaction amount to calculate a balance going backward in time.

- The analysis was limited to accounts with balances less than $2,000.

- For all but one utility, the account balance includes the unforgiven Fresh Start data.

Table 7-13 shows the number of sample cases that were included in the analysis.

[22] Account balances were taken from the transaction records for September 2003, September 2004, and August 2005 bills. The bill amount was subtracted from the account balance in order to generate the outstanding balance at the time of the bill.

Table 7-13
Sample Sizes for Arrearage Analysis

Group	Sample Size, By Utility Type and Analysis Group		
	Electric	Gas	PSE&G
Lifeline Only	843	467	630
October 2003 Clients - Reenrolled in FY 2005	854	548	1,370
October 2003- Not Reenrolled in FY 2005	437	277	904
FY 2005 Enrollees	753	342	578

Table 7-14 shows the mean balance for each USF client group in September 2003, September 2004, and August 2005. In Table 7-14, a negative sign indicates that, on average, a customer group had a credit on their accounts. Table 7-15 shows the change in mean balance for each USF client group. The September 2003 to September 2004 change for the Lifeline-only and October 2003 clients is the gross program effect. The net program effect can be estimated by comparing the change for USF clients to that for the customers who did not participate in USF during that period. The FY 2005 USF clients did not receive HEA or USF benefits during the first analysis period. In Table 7-15, a negative sign indicates a reduction in average balance.

The tables illustrate the following findings:

? Lifeline-only Clients – On average, USF clients entered the program with a small balance on their accounts. For each utility type, clients had a credit on their account by August 2005.

? Gross Result for October 2003 / Electric – This cohort of clients entered the program with average account balances of over $75. USF clients who reenrolled in FY 2005 had a $58 decrease in their account balance during their first year in the program; those who did not reenroll had a $71 decrease in their account balance during this time.

? Net Result for October 2003 / Electric – Electric customers enrolling in the USF for the first time in FY 2005 had an average increase in their account balance of $29 from September 2003 to September 2004. Therefore, the net program effect for October 2003 USF clients is a decline in account balances of $78 ($58 + $29) for those who reenrolled in FY 2005 and $100 ($71 + $29) for those who did not reenroll in FY 2005.

? Gross Result for October 2003 / Gas – Gas customers enrolling in October 2003 began their USF participation with small balances on their accounts ($11 for those reenrolling in FY 2005 and $24 for those who did not eventually reenroll). These clients experienced a $24 and $32 decrease in their account balances from

September 2003 to September 2004, and ended their first year of USF participation with small credits on their accounts. Those who reenrolled in USF had an average credit of $114 on their account by August 2005. [This appears to be a direct result of the Supplemental HEA benefit furnished to clients in August and September 2005.]

? Net Result for October 2003 / Gas – Account balances for FY 2005 enrollees increased during the first program year by an average of $11. That means that the net program effect for October 2003 / Gas USF participants is estimated to be $35 ($24 + $11) and $41 ($32 + 11), respectively.

? Gross Result for October 2003 PSE&G – The analysis demonstrates the significant reduction in arrears for clients from about $300 at the beginning of the program to an average balance of about $25 in August 2005.

? Net Result for October 2003 PSE&G – Customer who were not enrolled in USF until FY 2005 had a small average change in balance from April 2004 to September 2004 (-$16). The net program result for PSE&G clients in the first year was about $155 ($171 - $16) for participants that reenrolled in FY 2005 and about $148 ($164 - $16) for participants that did not reenroll in FY 2005.

These findings indicate that the change in balance for the USF customers is inconsistent among the various analysis groups. The program had a small impact on the balance for Lifeline customers, a moderate impact on the electric and gas USF participants, and a larger impact on the balances for customers of PSE&G. The greater the preprogram level of payment problem for customers, the greater the USF program impact.

Table 7-14
Analysis of Balance by USF Benefit Type
September 2003, September 2004, and August 2005

Group	Mean Balance: September 2003, September 2004, August 2005								
	Electric			Gas			PSE&G		
	9/03	9/04	8/05	9/03	9/04	8/05	4/04	9/04	8/05
Lifeline Only	20	-73	-78	5	-69	-28	35	-18	-22
October 2003, Reenrolled	77	19	-11	11	-13	-114	297	126	0
October 2003, Not Reenrolled	99	28	0	24	-8	22	304	140	53
FY 2005	95	124	65	55	63	-71	59	43	-93

Table 7-15
Analysis of Change in Balance by USF Benefit Type
September 2003 to September 2004 and September 2004 to August 2005

Group	Change in Mean Balance: September 2003, September 2004, August 2005					
	Electric		Gas		PSE&G	
	9/03-9/04	9/04-8/05	9/03-9/04	9/04-8/05	4/04-9/04	9/04-8/05
Lifeline Only	-93	-5	-74	+41	-53	-4
October 2003, Reenrolled	-58	-30	-24	-101	-171	-126
October 2003, Not Reenrolled	-71	-28	-32	+30	-164	-87
FY 2005	+29	-59	11	-137	-16	-136

Tables 7-16 and 7-17 show the distribution of customer balance status for September 2003 (April 2004 for PSE&G) and August 2005 respectively. The largest changes in status occurred for PSE&G HEA clients. In April 2004, less than 50 percent of these clients had a zero balance. In August 2005, about 70 percent of these clients had their balance reduced to zero. Similarly, the share of PSE&G FY 2005 clients with a zero balance increased from about 70 percent in April 2004 to almost 90 percent in August 2005. By comparison, there was almost no change in the percent of PSE&G Lifeline-only clients with a zero balance. One important finding is that these changes are dynamic; some USF clients go from zero balance to a positive balance, despite participation in the USF program. For example, among the October 2003 HEA/USF reenrollment group, we observed the following changes in status.

- Zero Balance All Analysis Points – 42 percent of clients
- Zero Balance in 4/04 and Positive Balance in August 2005 – 7 percent of clients
- Positive Balance in April 2004 and Zero Balance in August 2005 – 29 percent of clients
- Positive Balance All Analysis Points – 22 percent of clients

It is important to note that 7 percent of clients had a deterioration of their status, from a zero balance to a positive balance. This is further indication that clients have problems beyond their energy bills that affect their bill payment patterns.

Results for USF customers of the other gas and electric utilities were similar but less dramatic. Key findings for the analysis groups include:

? Lifeline-only USF customers were similarly less likely to have a change in the status of their account over the program period. Approximately 85 percent of Lifeline-only electric customers and 83 percent of Lifeline-only gas customers had a zero balance in both October 2003 and August 2005. Less than 3 percent of Lifeline-only electric customers and less than 9 percent of Lifeline-only gas customers began their participation in USF with a zero balance and had accumulated arrearages by August 2005.

? Across the analysis groups, between 3 and 12 percent of electric USF customers who were current on their account in October 2003 eventually developed arrears of greater than $60. For gas customers, between 8 percent and 13 percent experienced this type of deterioration in status.

? Approximately 20 percent of electric USF customers with arrears at the beginning of the USF program were able to eliminate them by August 2005. This ranged from 11 percent of Lifeline-only electric customers to 23 percent of customers who enrolled in 2003 but did not enroll in FY 2005. The proportions of gas USF customers eliminating arrears ranged from 6 percent of Lifeline-only customers to 20 percent of customers who enrolled in USF in 2003 and again in FY 2005.

? Approximately 18 percent of electric USF customers and 15 percent of gas USF customers who enrolled in October 2003 and reenrolled in FY 2005 maintained arrears of greater than $60 throughout the program periods.

Table 7-16
Distribution of Balance by USF Benefit Type
September 2003 (August 2004 for PSE&G)

Group	Distribution of Arrearages - September 2003 (April 2004 for PSE&G)								
	Electric			Gas			PSE&G		
	Zero Balance	$60 – $249	$250 or Greater	Zero Balance	$60 – $249	$250 or Greater	Zero Balance	$60 – $249	$250 or Greater
Lifeline Only	85.7	10.7	3.7	91.0	6.9	2.1	88.1	7.8	4.1
October 2003, Reenrolled	64.3	21.5	14.2	71.2	17.1	11.7	48.6	14.5	36.9
October 2003, Not Reenrolled	58.6	27.9	13.6	68.2	18.4	13.4	47.5	13.8	38.7
FY 2005	59.8	22.4	17.8	71.9	14.6	13.5	69.2	17.5	13.3

Table 7-17
Distribution of Balance by USF Benefit Type
August 2005

Group	Distribution of Arrearages- August 2005								
	Electric			Gas			PSE&G		
	Zero Balance	$60 – $249	$250 or Greater	Zero Balance	$60 – $249	$250 or Greater	Zero Balance	$60 – $249	$250 or Greater
Lifeline Only	94.5	3.6	1.9	88.2	8.4	3.4	87.1	10.0	2.9
October 2003, Reenrolled	79.7	12.9	7.4	83.1	10.2	6.7	71.2	12.2	16.6
October 2003, Not Reenrolled	74.0	18.7	7.3	69.3	11.9	18.8	65.3	12.7	22.0
FY 2005	67.1	15.7	17.3	76.3	14.6	9.1	88.2	9.0	2.8

C. USF Impact on Customer Usage

Data on customers' energy usage were analyzed to assess the impact of the USF program on consumption. Customer usage data from the year prior to the institution of the USF program, October 2002 to September 2003, were compared to data from the following year, October 2003 to September 2004. Tables 7-19 through 7-21 compare of annual usage for these two periods. Table 7-19 provides a basic description of the level of usage for each of the analysis groups in both periods. Table 7-20 shows the difference in the mean levels of consumption. Table 7-21 shows the extent of the change from the pre- to post-period.

There are two important methodological notes to consider when reviewing the findings. This analysis was limited to USF clients with usage data in October 2002 and September 2004. The analysis also excluded outlier data.

- For gas USF accounts, clients with annual usage of less than 200 therms or greater than 2,500 therms were excluded.
- For electric USF accounts, clients with annual usage below 2,000 kwhs or in excess of 30,000 kwhs were excluded.
- For both utility types, accounts that had a decrease of more than 50 percent or an increase of greater than 100 percent from the pre- to post-period were not included.

The following table describes the composition of the data used in this analysis.

Table 7-18
Sample Sizes for Usage Analysis

Group	Sample Size, By Utility Type and Analysis Group	
	Gas	Electric
Lifeline Only	684	1,169
October 2003 Enrollees	2,836	3,574
April 2004 Enrollees	571	683
September 2004 Enrollees	358	805
FY 2005 Enrollees	1,369	1,552
All	6,563	7,483

Table 7-19 shows the mean annual usage by analysis group for the preprogram and postprogram periods. Table 7-20 shows the gross change in usage for the preprogram and postprogram periods. Table 7-21 shows the gross percentage change in usage. The findings with respect to gas usage were:

? On average, clients used about 1,200 therms of gas.

? Gas usage in the preprogram period was about eight percent higher than in the postprogram period.

? The change in average usage by group fell into a narrow range from about -5.2 percent to -8.5 percent.

? Lifeline-only and October 2003 clients had the largest reduction in gas usage.

The findings with respect to electric usage were:

? On average, clients used about 7,200 kWh of electricity.

? Electric usage in the preprogram period was about the same as that in the postprogram period.

? The change in average usage by group fell into a narrow range from about -2.5 percent to +1.6 percent.

? Lifeline-only and October 2003 clients had the largest reduction in electric usage.

In general, these findings suggest that participation in the USF program had little or no impact on usage. If anything, USF participants used less than nonparticipants. Referral of some USF clients to the Comfort Partners program could have been the source of the difference between the two groups.

Table 7-19
Mean Usage in Pre- and Post-Program Period
By Analysis Group

Group	Annual Consumption			
	Mean Gas Usage (in Therms)		Mean Electric Usage (in KWHs)	
	October 2002-September 2003	October 2003-September 2004	October 2002-September 2003	October 2003-September 2004
Lifeline Only	1,129	1,054	8,444	8,232
October 2003 Enrollees	1,249	1,143	6,926	6,867
April 2004 Enrollees	1,154	1,084	6,577	6,663
September 2004 Enrollees	1,271	1,205	6,687	6,733
FY 2005 Enrollees	1,110	1,037	7,357	7,475
All	1,194	1,106	7,204	7,179

Table 7-20
Difference In Mean Usage Between Pre- and Post Program Period
By Analysis Group

Group	Annual Consumption	
	Difference in Mean Gas Usage (in Therms)	Difference in Mean Electric Usage (in kWhs)
Lifeline Only	-75	-212
October 2003 Enrollees	-106	-59
April 2004 Enrollees	-70	88
September 2004 Enrollees	-66	46
FY 2005 Enrollees	-73	118
All	-88	-25

Table 7-21
Percentage Change in Usage Between Pre- and Post-Program Period
By Analysis Group

Group	Percentage Change From Pre- to Post-Period	
	Gas Usage	Electric Usage
Lifeline Only	-6.6%	-2.5%
October 2003 Enrollees	-8.5%	-0.9%
April 2004 Enrollees	-6.1%	+1.3%
September 2004 Enrollees	-5.2%	+0.7%
FY 2005 Enrollees	-6.6%	+1.6%
All	-7.4%	-0.4%

D. Customer Satisfaction with USF and Fresh Start Procedures

We have little or no information on the satisfaction of USF customers with the USF procedures. Only 40 percent of USF clients are aware of their USF participation. Only 20 percent of Fresh Start clients are aware of their Fresh Start participation. Among those clients who are aware of their USF participation, only 25 percent are aware that they need to reenroll to remain in the USF program. Since USF clients aren't aware of the USF program and don't understand USF procedures, we cannot measure their satisfaction with those procedures. In other sections of the report, we have discussed program barriers and client satisfaction with HEA enrollment procedures.

VIII. Utility Program Impacts

The sixth set of evaluation questions posed by the BPU relates to utility program impacts of the USF program. The BPU has asked:

- What is the net change in collection actions for participating customers?
- What is the net change in arrearages for participating customers?
- What is the net change in uncollectibles for participating customers?
- What is the net change in cash working capital?
- How do these changes affect the costs incurred by utilities?
- In what other ways does the USF program affect utility costs?

To answer these questions, we have conducted an analysis of aggregate utility collection statistics from the utility collection reports, as well as an analysis of the changes in the payment problems for USF customers.

A. Changes in Payment Problems for USF Participants

On average, the USF program reduced the combined energy burden of participating households from almost 20 percent of income to 6 percent of income. In addition, the Fresh Start program allowed customers with preprogram arrearages to receive forgiveness of those arrears by paying their current utility bill. Those two components of the USF program have the potential to significantly improve payment patterns for USF customers and reduce collections costs for utilities.

We considered two ways to measure the change in payment problems for USF participants. One alternative is to compare the number of collection actions for USF program participants in the year prior to USF enrollment to the number of collection actions for USF program participants in the year after USF enrollment. A second alternative is to compare the arrearage status for USF participants in the year prior to USF enrollment to the arrearage status of USF participants in the year after USF enrollment. We selected the second option because there are both conceptual and technical barriers to the first option.

- Conceptual Barriers – In addition to payment compliance, there are a number of other factors that can have an affect on the number of collection actions experienced by low-income households. In such an environment, it is difficult to attribute changes in collection actions to program implementation.

- Energy Prices – In recent years, gas prices have fluctuated considerably. For example, there was a significant price increase in 2001. During that period, collection actions and uncollectibles increased substantially for the natural gas utilities in New Jersey and in other jurisdictions.

- Management Decisions – It is not uncommon for utility management to change the company's collection strategy. When such a change is implemented, the number of collection actions for low-income households is likely to change, independent of other factors.

- Economy – Changes in economic factors can affect the number of customers with payment problems. An increase in the number of other customers with payment problems can increase or decrease the number of collection actions for low-income customers, even if the status of the low-income customer does not change.

? Technical Barriers – At least three of the seven New Jersey utilities do not maintain an adequate collections history for the required analysis.

In our analysis of payment problems, we looked at three payment problem indicators.

? Payment Compliance – For those utilities with adequate data, we looked at how the share of the retail bill that was paid by USF customers changed from the period prior to program enrollment to the period after program enrollment.

? Arrearage Status – We compared arrearage status of households at program enrollment to their status two years later.

? Arrearage Threshold – For those utilities with adequate data, we examined arrearage balances to identify whether the balance exceeded a collections threshold at any point during the active collection period for the period prior to program enrollment compared to the period after program enrollment.

These three statistics give us information on how the USF program has affected payment problems for participating customers.

1. Payment Compliance

In Section V of this report, we furnish information on the payment compliance rate for USF customers. The statistics in this section show that, during the program year from July 2004 to June 2005[23], 67 percent of USF customers paid 100 percent or more of their retail bills, 17 percent of USF customers paid 90 to 99 percent of their full bill, and 16 percent of USF customers paid less than 90 percent of their retail charges. These

[23] In this analysis, we used available data to get a one-year period that was as close to 7/04 to 6/05 as possible. For some customers, the analysis was for 8/04 to 7/05 or for 9/04 to 8/05.

statistics suggest that about two-thirds of USF customers do not have payment problems. Of the remaining one-third, half paid over 90 percent of their bill and have modest payment problems, while the other half paid less than 90 percent of their bill and have potentially severe payment problems.

We do not have payment compliance statistics for all of the utilities for the year prior to program enrollment. However, we can provide statistics for two of the electric utilities and two of the gas utilities. Table 8-1 shows the statistics for electric USF customers and Table 8-2 shows the statistics for gas USF customers.

Table 8-1 shows that, for those customers with preprogram and postprogram electric data, there was a small improvement in payment compliance; the share of customers that paid their full bill grew from 79 percent to 81 percent. However, there are two problems with these data. First, we have data only for ACE and RE, about 10 percent of USF customers. Second, the customers who have data have higher post program payment compliance rates than the average electric USF customer, suggesting that our analysis could be biased. From this analysis, there is very little evidence to suggest that the USF program improved payment compliance rates and thereby reduced payment problems for electric customers.

Table 8-1
Comparison of Preprogram and Postprogram Payment Compliance Rates for Electric Utilities with Data Available (ACE, RE)

Payment Compliance Rate	Time Period		
	Preprogram Year (2003)	Post Program Year (2005)	Change in Percentage
LT 90%	8.7%	7.5%	-1.2%
90% to LT 100%	12.3%	11.4%	-1.1%
100% or More	79.0%	81.2%	+2.2%
Sample Size	414		

Table 8-2 shows that, for those customers with preprogram and postprogram gas data, there was a large improvement in payment compliance; the share of customers that paid their full bill grew from 55 percent to 83 percent. The limitation of these data is that they cover only NJNG and SJG customers, about 20 percent of USF customers. However, the quality of the data from those utilities makes the analysis fairly robust. This analysis furnishes evidence that the USF program improved payment compliance rates for SJG and NJNG customers and thereby reduced payment problems for those customers.

Table 8-2
Comparison of Preprogram and Postprogram Payment Compliance Rates for Gas Utilities with Data Available (NJNG, SJG)

Payment Compliance Rate	Time Period		
	Preprogram Year (2003)	Post Program Year (2005)	Change in Percentage
LT 90%	14.9%	8.0%	-6.9%
90% to LT 100%	29.8%	8.7%	-21.1%
100% or More	55.3%	83.3%	+28.0%
Sample Size	1,187		

2. Arrearage Status

Even if a household pays 100 percent of the retail utility bill, they may still be payment troubled. A household may have a difficult financial period and get behind in paying bills. Once the household becomes financially stable again, they may have the ability to pay for current bills, but may not be able to retire prior arrearages. For such a household, the advantage of the USF and Fresh Start programs is that preprogram arrears can be retired by paying current bills.

The first group of customers was enrolled in the USF program in October 2003. The payment status of customers in the month prior to enrollment (September 2003) is one indicator of the level of payment problems faced by customers. To examine the change in payment problems, we compare the arrearage status for program participants in September 2003 to the arrearage status in August 2005, after two years of USF program participation.[24] Table 8-3 furnishes the information for electric USF customers. Table 8-4 furnishes the information for gas USF customers. Table 8-5 furnishes the information for PSE&G customers for April 2004 and August 2005. [Note: PSE&G data were inadequate to develop balance information for September 2003. We used Fresh Start beginning balances for Table 8-5.]

Table 8-3 shows that the share of electric company USF customers with no arrearages problem increased from 72 percent prior to enrollment in the program to 85 percent at the end of two years on the program, a gross program impact of about 13 percent.[25] The three electric utilities have a caseload of about 31,000 USF customers. These statistics suggest that the USF program may have eliminated payment problems for about 4,000 USF participants.

[24] In this analysis, we included any remaining Fresh Start balances in the customer's arrears.

[25] This analysis could be enhanced by developing a control group of customers enrolled in the program in the 2005-2006 program year. However, that analysis is outside the scope of this evaluation.

Table 8-3
Comparison of 9/03 and 8/05 Arrearage Status
for Electric Utilities with Data Available
(JCP&L, ACE, RE)

Arrearage Status	Time Period		
	Preprogram (9/03)	Post Program (8/05)	Change in Percentage
LT $60	72.0%	84.7%	+12.7%
$60 to LT $250	18.3%	10.2%	-8.1%
$250 or More	9.7%	5.1%	-4.6%
Sample Size	2,024		

Table 8-4 shows that the share of gas company USF customers with no payment problem increased from 78 percent prior to enrollment in the program to 82 percent at the end of two years on the program, a gross program impact of about 4 percent.[26] The three electric utilities have a caseload of about 26,000 USF customers. These statistics suggest that the USF program may have eliminated payment problems for about 1,000 USF participants.

Table 8-4
Comparison of 9/03 and 8/05 Arrearage Status
for Gas Utilities with Data Available
(NJNG, SJG)

Arrearage Status	Time Period		
	Preprogram (9/03)	Post Program (8/05)	Change in Percentage
LT $60	77.8%	82.0%	+4.2%
$60 to LT $250	13.7%	9.9%	-3.8%
$250 or More	8.6%	8.1%	-0.5%
Sample Size	1,282		

Table 8-5 shows that the share of PSE&G USF customers with no payment problem increased from 57 percent prior to enrollment in the program to 73 percent at the end of two years on the program, a gross program impact of about 16 percent.[27] The three electric utilities have a caseload of about 67,500 USF customers. These statistics

[26] This analysis could be enhanced by developing a control group of customers enrolled in the program in the 2005-2006 program year. However, that analysis is outside the scope of this evaluation.
[27] This analysis could be enhanced by developing a control group of customers enrolled in the program in the 2005-2006 program year. However, that analysis is outside the scope of this evaluation.

suggest that the USF program may have eliminated payment problems for about 11,000 USF participants.

Table 8-5
Comparison of 4/04 and 8/05 Arrearage Status
for PSE&G USF Clients

Arrearage Status	Time Period		
	Preprogram Year	Post Program Year	Change in Percentage
LT $60	56.8%	72.8%	+16%
$60 to LT $250	12.8%	11.9%	-0.9%
$250 or More	30.4%	15.3%	-15.1%
Sample Size	2,904		

Using this measurement procedure, we can estimate that the USF program eliminated payment problems for about 16.000 USF customers, out of the caseload of about 120,000 USF customers in the 2004-2005 program year.

3. Arrearage Threshold

The analysis of arrearage status at a fixed point in time is not sufficient to identify payment problems. In particular, the month used in the analysis tends to have one of the lowest levels of customer arrears for residential gas customers, since the combination of low summer bills and summer collection activities may have resulted in full payment of overdue balances by customers. An alternative is to look at households that have arrearage balances at any point during the collection period (April to October) that would result in the household being targeted for collection activity.

We do not have arrearage threshold data for all of the utilities for the year prior to program enrollment. However, we can provide statistics for two of the gas utilities and three of the electric utilities. Table 8-6 shows the statistics for electric USF customers and Table 8-7 shows the statistics for gas USF customers.

For those electric customers with data for both periods, Table 8-6 shows the change in the share of customers with arrearage balances that would be likely to put them into collections. In the collections period prior to program enrollment (April to September 203), 22 percent of the customers had arrears that exceeded $250 and 11 percent had arrears that exceeded $500. By comparison, during the 2005 collection period, only half that many customers had arrears at those levels; 11 percent had arrears that exceeded $250 and 6 percent had arrears that exceeded $500. These statistics suggest that the USF program was effective in eliminating payment problems for 5 percent to 10 percent of electric USF customers.

Table 8-6
Comparison of Preprogram and Postprogram Arrearage Threshold Rates for Electric Utilities with Data Available (JCP&L, ACE, RE)

Arrearage Threshold Rate	Time Period		
	Preprogram Collection Period (2003)	Post Program Collection Period (2005)	Change in Percentage
Arrears GT $250	21.8%	11.3%	-10.5%
Arrears GT $500	11.4%	5.6%	-5.8%
Sample Size	816		

For those gas customers with data for both periods, Table 8-7 shows the change in the share of customers with arrearage balances that would be likely to put them into collections. In the collections period prior to program enrollment (April to September 203), 36 percent of the customers had arrears that exceeded $250 and 19 percent had arrears that exceeded $500. By comparison, during the 2005 collection period, 28 percent had arrears that exceeded $250 and 13 percent had arrears that exceeded $500. These statistics suggest that the USF program was effective in eliminating payment problems for 6 percent to 9 percent of gas USF customers.

Table 8-7
Comparison of Preprogram and Postprogram Arrearage Threshold Rates for Gas Utilities with Data Available (NJNG, SJG)

Arrearage Threshold Rate	Time Period		
	Preprogram Collection Period (2003)	Post Program Collection Period (2005)	Change in Percentage
GT $250	36.4%	27.7%	-8.7%
GT $500	19.4%	13.2%	-6.2%
Sample Size	1,241		

4. Summary of Findings

We examined three different statistics that furnish an indication of the level of payment problems experienced by USF customers and that demonstrate the change in the level of payment problems that results from participation in the USF program. These statistics allow us to establish a range of estimates for the reduction in payment problems among

USF customers and therefore the likely reduction in collection activity required by the utility companies with respect to USF customers.

- *Payment Compliance* – The payment compliance statistics show a very small change in payment problems for electric USF customers (2%) and a large change in payment problems for gas customers (28%). Both statistics have a limit in that they do not include data for PSE&G.

- *Arrearage Status* – The arrearage status statistics show a 13 percent improvement in status for electric customers, a 4 percent improvement for gas customers, and a 16 percent improvement for PSE&G customers. The PSE&G statistic may be overstated because it compares April 2004 status to August 2005 status; even in the absence of a program one would expect a higher arrearage rate in April than in September.

- *Arrearage Threshold* – The arrearage threshold statistics show a 5 to 11 percent improvement for electric customers and a 6 to 9 percent improvement for gas customers. These statistics are limited since they do not include data for PSE&G.

Based on these data, we cannot develop a precise estimate of the change in payment problems for USF customers. However, we can see that the range in which the change is likely to fall is from about 5 percent to about 25 percent. In the remainder of this section, we will examine the cost impact of having a 5 percent, 15 percent, and 25 percent change in payment problems and collections for utilities.

B. Changes in Collections for Utilities

The USF program was implemented in October 2003. It was expected that the program would reduce the population of low-income customers in arrears, thereby reducing collections actions and collections costs for the utility companies. However, at the same time as the USF program was being implemented, other economic forces affected the utility's actual collection costs.

New Jersey's utilities file monthly collection reports to the BPU. These reports furnish information on the number of customers in arrears and the number of collection actions that have been taken by the utilities to address payment problems. We used these collection reports to examine collections trends for 2003, 2004, and 2005. Tables 8-8 through 8-12 present the trends for five key collections statistics – disconnect notices, field visits, service terminations, new DPAs, and net charge offs.

Table 8-8 shows that there have been significant changes in the number of disconnect notices between 2003 and 2005. However, there is no consistent direction among the utilities. NJNG had a 10 percent increase in notices, while SJG saw notices decline almost 10 percent. There was a 24 percent increase for ACE, while JCP&L had a small decline.

Table 8-8
Collections Trends – Disconnect Notices
2003, 2004, and 2005

Company	Number of Disconnect Notices			
	2003	2004	2005	2003 to 2005
PSE&G	3,373,971	3,539,201	2,788,868	-18%
ACE	236,302	322,640	293,112	+24%
JCP&L	612,178	592,497	606,011	-1%
RE	30,539	35,582	36,272	+16%
ETG	327,567	286,989	187,663	-43%
NJNG	296,282	294,159	325,000	+10%
SJG	429,136	381,539	390,617	-9%

Table 8-9 shows that there also have been significant changes in the number of residential field visits between 2003 and 2005. However, there is no evidence of a systematic decline in visits that has resulted from the implementation of the USF program.

Table 8-9
Collections Trends – Field Visits
2003, 2004, and 2005

Company	Number of Field Visits			
	2003	2004	2005	2003 to 2005
PSE&G	331,618	375,434	392,301	+18%
ACE	27,374	26,080	27,380	No change
JCP&L	50,937	51,480	45,099	-12%
RE	Not Available	Not Available	Not Available	Not Available
ETG*	47,193	40,468	24,442	-48%
NJNG	22,331	21,604	20,494	-8%
SJG	8,987	9,115	14,132	+57%

*ETG report is for company fiscal year for 2004.

Table 8-10 shows the number of residential service terminations for the seven utilities. All of the electric-only utilities experienced a reduction in the number of residential service terminations between 2003 and 2005. However, two of the three gas-only companies and PSE&G experienced increases in residential service terminations over the analysis period.

Table 8-10
Collections Trends – Residential Service Terminations
2003, 2004, and 2005

Company	Number of Residential Service Terminations			
	2003	2004	2005	2003 to 2005
PSE&G	110,038	123,029	118,873	+8%
ACE	10,558	10,417	9,230	-13%
JCP&L	12,638	13,239	9,930	-21%
RE	320	466	243	-24%
ETG	6,650	4,700	5,993	-10%
NJNG	7,118	7,209	8,523	+20%
SJG	5,063	6,161	6,990	+38%

Table 8-11 shows that all of the electric-only utilities experienced an increase in the number of new DPAs, while the two gas-only companies for which data are available demonstrated a decrease in new DPAs. It is interesting to note that this is different from Table 8-10, where the electric companies had a decrease and the gas companies had an increase.

Table 8-11
Collections Trends – New DPAs
2003, 2004, and 2005

Company	Number of New DPAs			
	2003	2004	2005	2003 to 2005
PSE&G	428,309	408,105	392,301	-8%
ACE	67,731	71,552	107,810	+59%
JCP&L	37,115	34,923	49,583	+34%
RE	294	370	355	+21%
ETG*	7,309	10,343	6,808	-7%
NJNG	97,841	96,098	88,258	-10%
SJG	Not Reported	Not Reported	Not Reported	Not Reported

*ETG report is for company fiscal year for 2003 and 2004.

Table 8-12 shows that the electric companies experienced a decrease in the net write-offs between 2003 and 2005. However, at the same time, PSE&G experienced a 18 percent increase in gross write-offs. It is important to understand that sometimes year to year changes in these statistics can be deceiving. For example, changes in accounting and collections practices can be directly linked to the changes in write-offs for SJG.

Table 8-12
Collections Trends – Net Write Offs
2003, 2004, and 2005

Company	Total Net Write Offs			
	2003	2004	2005	2003 to 2005
PSE&G	$44,210,000	$54,915,000	$52,351,000	+18%
ACE	$6,750,483	$4,491,703	$4,594,048	-46%
JCP&L	$8,435,474	$8,155,407	$6,507,172	-23%
RE	$119,926	$136,337	$89,302	-26%
ETG*	$4,130,388	4,628,302	$4,104,160	-1%
NJNG	$2,208,514	$2,851,381	$2,346,732	+6%
SJG[28]	$3,000,000	$800,000	$1,500,000	-50%

*ETG report is for company fiscal year for 2004.

We examined the changes in key collection statistics to assess whether there is any evidence that the USF program has resulted in a reduction in collection activities for the utilities. Our analysis showed that collection statistics changed significantly from 2003 to 2005. However, the changes furnish no direct evidence that the USF program reduced collection costs. The observed changes are likely to result from the combined effect of the implementation of the USF program, changes in the way that electric utilities are reimbursed for write-offs, increase in gas prices, and other changes in individual utility collection practices. We cannot attribute a specific change to the implementation of the USF program.

C. *Utility USF Costs and Cost Offsets*

The USF program is likely to have affected utility costs in a number of ways. Utilities have incurred costs to design and implement the USF program procedures, and to communicate those procedures to their customer service and collections staff. Customers on the USF program have improved their payment patterns, thereby reducing the number of contacts required from the collections department and potentially reducing the uncollectibles associated with service terminations.

To understand to cost impacts of the USF program, it is important to have a comprehensive approach to the measurement of costs. For purposes of this evaluation, we have defined five terms that describe how the USF program affects utilities.

[28] SJG 2004 gross and net write off was affected by additional write off taken in November and December 2003 for nonpayment shutoff customers that were not reactivated by year end. 2005 gross and net write offs were affected by a BGSS refund of $11 million, as well as by the implementation of a technology that enabled SJG to assign about $700,000 in uncollectible balances to active gas accounts.

1. Gross Program Costs – The total costs for all utility resources devoted to the USF program, including USF and Fresh Start credits.

2. Incremental Program Costs – New costs incurred by the utility that are directly attributable to the USF program, including USF and Fresh Start credits.

3. Potential USF Program Offsets – The potential cost savings to the utility associated with a change in customer circumstances under the program.

4. Net Program Costs – Gross program costs minus program offsets.

5. Actual Utility Costs – The change in utility costs that occurred during the program implementation period.

In this evaluation, we developed measures for some utilities for some of these costs. However, we found that the data available for measurement were, in most cases, inadequate to furnish a complete and comprehensive picture of program costs and cost offsets. The statistics presented in this section should be viewed as illustrative of program cost statistics. To furnish additional information, we provide comparative cost statistics for Pennsylvania low-income payment programs using data from the 2004 Pennsylvania Universal Service Program report.

1. Utility Gross USF Program Costs – Total and Incremental

In Section XI of this report, we provide information on the USF cost reports that the utility companies submit to the Division of Audits of the BPU. Those cost reports include the following USF cost elements.

- USF Benefits – Monthly credits to customers.

- Fresh Start Benefits – Periodic arrearage forgiveness granted to customers.

- Interest – The interest associated with under-recovery of USF costs. [Note: This is not truly a program cost. Rather, it is a reported expense that relates to interest on expenditures from a prior program period.]

The utilities differ in their reporting of administrative expenses. Some of the utilities report only those costs associated with mailings to USF customers that are required by the BPU (e.g., NJNG, SJG, and ETG). Other utilities are reporting all incremental USF administrative costs (PSE&G, ACE, JCP&L, and RE). Utilities also differ in their administrative cost tracking. JCP&L tracks all of the administrative expenses associated with the USF program. NJNG and SJG track only those costs that are reported to the BPU. Other utilities track all incremental program costs.

There is another potential cost associated with the USF program – interest on the Fresh Start debt that is held by utilities. When a client is enrolled in the Fresh Start program,

the customer's preprogram arrears are held by the utilities. When the Fresh Start customer earns arrearage forgiveness, the utility can then receive payment on the forgiveness. However, there is no payment for the interest on the arrears that are being held. [Note: This is the same as the treatment for arrears for customers that are placed on a DPA by the utility outside the USF program.]

Excluding administrative costs and underrecovery interest, the total Utility Gross USF Program Cost for the 2004-2005 program year was about $95.4 million. With a caseload that averaged 123,175 customers, the average cost per customer was about $775 per participant.

The reported administrative expenses for the program were about $932,000 or about $7.50 per participant. However, since utilities report only incremental administrative costs, and since different utilities have interpreted the reporting requirement differently, that clearly understates the administrative costs borne by utilities. Other available information includes:

- JCP&L does track all program administrative costs. They report that the 2005 USF administrative cost was about $195,000 (excluding the Dollar Energy pilot costs). [Note: They reported only $77,000 in incremental administrative costs to the BPU.] Since JCP&L had a 2005 caseload of about 18,500 participants, the average administrative costs for USF were about $10.50 per participant.

- ACE does not track all program administrative costs. However, since they outsource their IT costs, their incremental program cost covers more expenses than does the incremental costs for other utilities. Their reported incremental cost for the 2004 program year was $369,000 and USF caseload of 12,000 customers is an average of about $31 per USF participant. However, for 2005, their reported incremental cost was about $4,000 for an average of less than $1 per customer.

- PSE&G tracks incremental program costs, including IT costs. They reported deferred administrative costs of $713,000 for 2005 and a USF caseload of over 67,000 USF customers, for an average cost per USF customer of about $10.64.

- NJNG reports only mailing costs to the BPU; these averaged about $3 per customer for the 2005 program year. However, internal NJNG reports show that 2005 IT costs for the USF program were about $151,000, an average cost of $16 per USF customer.

From these data, it appears that the USF program costs each utility between $10 and $20 per USF customer, with about half of the total being incremental and the other half relating to use of existing utility resources. [The exception is RE which has high average costs because they have so few USF customers.] Together with the other reported data, it appears that the utility USF program costs are between $785 and $795 per customer, with USF credits of about $600 per participant, Fresh Start credits of

about $175 per participant, and utility administrative costs of between $10 and $20 per participant. With a caseload of about 120,000 USF customers per year, this implies that the utilities are incurring about $2.4 million in total costs and about $1.2 million in incremental costs per year to implement the USF program.

By comparison, the 2004 Universal Service Program report from Pennsylvania shows that the average utility spends about 12 percent of their electric CAP budget and about 7 percent of their gas CAP budget on program administration. For Pennsylvania utilities, the average electric program administrative cost was $75 per customers and the average gas program administrative cost was $58. However, Pennsylvania utilities are responsible for program intake and recertification. In New Jersey, the State Government and local intake agencies are responsible for those program costs.

2. Potential Utility USF Program Offsets

The USF program has the potential to reduce utility collection costs by reducing the need to collect from low-income payment troubled customers. The utility costs that are potentially avoided by a reduction in payment problems include:

- Collection Costs – The costs directly associated with collections.
- Working Capital Costs – The costs associated with the interest on working capital that is required to fund outstanding customer arrearages.
- Customer Service Costs – The costs associated with customer service calls that relate to payment problems and the resolution of payment problems.
- Regulatory Costs – The costs associated with resolving regulatory issues related to complaints to the BPU by customers with payment problems.
- Write-Offs – The reduction in write-offs that result from a reduction in payment problems.

We review each of these issues and consider the potential size of these offsets.

Collection and Working Capital Costs

Three data elements are required to estimate collection cost offsets – the gross impact of the USF program on payment problems, the net impact of the USF program on payment problems, and the average avoided cost associated with a reduction on payment problems.[29]

[29] The avoided cost analysis assumes that, in the long run, a decline in the number of payment problems among low-income customers will lead to either a decline in collection costs or refocusing collections costs on other population

? Gross Impact on Payment Problems – We have measured the impact of the USF program on payment problems in three different ways. The measurements range from 5 percent of program participants to 25 percent of program participants.

? Net Impact on Payment Problems – Because of the way the USF program was implemented, we would have needed payment data for 2005-2006 USF program participants to serve as a valid control group. Analysis of those customers was not in the scope of this project. No net impact measurement is feasible.

? Avoided Costs – In this section we furnish an estimate of the average cost of collections per payment troubled customer.

The potential net collections offset associated with the USF program is computed as the number of USF customers that have payment problems eliminated times the average cost of collections. One problem with this approach is that, theoretically, marginal cost should be used instead of average cost. However, we do not have to ability to measure marginal cost in the context of this research study.

Data furnished by five of the seven New Jersey utilities shows that those utilities spent about $34.7 million on collections during 2005. We estimate that the collections caseload (i.e., customers who received a disconnect notices) was about 1.22 million customers. Using those numbers, the average cost of collections is about $28 per payment troubled customer.

Some analysts have suggested that the cost of working capital associated with arrearages should be included in the avoided cost analysis. As we mentioned earlier, it is unclear whether New Jersey utilities avoided the cost of working capital under the USF program, since they had to hold the Fresh Start arrears for customers until they were forgiven without interest. However, it is reasonable to estimate the carrying cost of arrears for this analysis. We estimated the carrying cost of arrears for the five utilities with collections data at about $9.1 million for 2005, or about $8 per payment troubled customer.

In Table 8-13, we furnish information on the potential impact of the USF program on collection costs. In the first row of the table, we show that the average caseload of USF customers during the 2005 program year was about 120,000 customers. In the second row of the table, we identify a low impact (5 percent), moderate impact (15 percent), and high impact of the USF program (25 percent). Using these different assumptions on program impact, the USF program can be estimated to have a potential impact of between $168,000 and about $1.0 million.

segments. Utilities do not have to experience a decline in collection costs for the avoided cost to be an appropriate analytic tool for examining the net cost of the USF program.

Table 8-13
Impact of USF Program on Collections
Low, Moderate, High Impact Scenarios

Statistic	Payment Problem Impact		
	Low	Moderate	High
Total USF	120,000	120,000	120,000
Resolution Rate	5%	15%	25%
Customers Affected	6,000	18,000	30,000
Collection Savings per Customer	$28	$28	$28
Total Collection Savings	$168,000	$504,000	$840,000
Collection and Working Capital Savings per Customer	$34	$34	$34
Total Collection and Working Capital Savings	$204,000	$612,000	$1,020,000

Customer Service Costs

There are two ways that the USF program is likely to affect customer service costs. To the extent that payment problems are reduced for low-income customer, we might find a reduction in the number of calls to customer service to discuss payment problems. However, at the same time, there is likely to be an increase in the number of customer service contacts by customers who are interested in the USF program and from customers who have questions about their USF program status.

As discussed earlier in this section, the reduction in payment problems for USF customers affects a relatively small number of customers. Moreover, the number of inquiries regarding the USF program could be significant. We have not developed detailed cost data on customer service costs for two reasons.

1. Limited Data – New Jersey utilities have only limited data on the nature of customer service calls, making it difficult to assess the number of calls affected by these impacts.

2. Other Studies – Other studies have shown only small impacts of payment programs on customer service costs.

We did not believe that it was appropriate to engage the utilities in this research task given the likely small impact of the program on customer service costs.

Regulatory Costs

BPU complaint data show that the majority of customer complaints to the BPU relate to collection issues. To the extent that the USF program reduces the number of customer collection complaints, it is possible that the USF program can reduce the regulatory costs associated with payment problems. However, at the same time, the regulatory departments of New Jersey utilities are bearing costs associated with the implementation of the USF program. As with customer service activities, the data do not appear to be adequate to effectively measure the net cost offset from the USF program on regulatory activities.

Write-Off Costs

In this analysis, we treat write off costs separately from other collections costs for a number of reasons.

? Rate Treatment of Write-Offs – Currently, the treatment of uncollectibles for the electric utilities is different from the treatment of uncollectibles for gas utilities. Electric utility uncollectibles are not included in rates, but are paid directly by the SBC fund. Gas utility uncollectibles are included as part of base rates. Electric Fresh Start benefits were about $10.6 million for 2005 and gas Fresh Start benefits were about $11.0 million for 2005.

? Truncation Bias – It is very difficult to measure how the availability of the USF and the Fresh Start program affects write-offs for payment troubled customers. The programs allow customers to retire arrears by making payments on a current account. However, with the available control groups, we cannot measure whether those arrears would have become uncollectible. In a special analysis with NJNG, we found that customers who were in arrears in 2003 but did not participate in USF had about the same level of arrears when they got on the USF program a year later. However, we have no information on those customers that did not get on the USF program and, as a result, lost their gas service and had their arrears written off by NJNG.

? Offset – There is a small potential offset to the change in writes-offs, since nonUSF customers whose debts become uncollectible are potentially increased by the higher rates they paid for the USF SBC.

While one can see a direct relationship between payment problems and collection actions, the relationship between payment problems and utility write-offs is much less clear, since write-offs occur only once service has been terminated for an account.

The total Fresh Start Credits for 2005 were about $21.7 million. About $10.6 million of that was granted on electric accounts. If those Fresh Start credits simply replaced dollars that would have been written off, there is a direct offset to the SBC electric uncollectibles account. That has no apparent affect on the utilities.

The gas utility Fresh Start credits were about $11.1 million for 2005. Some analysts would argue that those arrears were uncollectible and ultimately would have been written off. Their logic follows that the $11.1 million in Fresh Start credits were already in rates and that the gas utility companies should not be reimbursed for the Fresh Start Credits that they granted. However, there are at least two reasons why we cannot endorse the assertion that these arrears were not collectible.

- Timing – The Fresh Start balances for the USF customers examined in this evaluation were identified in April 2004. They included both preprogram and program arrears. Any balance on a USF customer's account in April 2004 was put into Fresh Start. However, we know that utility arrearage levels are cyclical and that April represents the peak of that collections cycle. For example, in April 2005, PSE&G had $134 million in arrearages. In November 2005, PSE&G had only $78 million in arrears. Based on those statistics, we can see that it is possible that as much as 50 percent of April arrears are collected at some point during the year.

- Emergency Grants – HEA emergency grants become available in April. A significant share of the Fresh Start balances might have been paid by HEA if customers had not been on the USF program.

Based on this analysis, we find that it is possible that some of the Fresh Start credits might have had to be written off as part of rates by the utilities if the USF program did not exist. However, we do not have any evidence that allows us to compute with any certainty what share of those arrears ultimately become uncollectible.

3. USF Net Program Costs

In this section, we have computed information on the gross and incremental cost for the utilities of implementing the USF program, as well as the estimated collections offset associated with the reduction in payment problems for customers that receive USF benefits. The statistics include the following:

- Total USF Administrative Costs – We estimated that the annual total USF program administrative costs for the seven utilities are in the range of $2.4 million.

- Net USF Administrative Costs – We estimated that the annual incremental USF administrative costs for the seven utilities are in the range of $1.2 million.

- Potential Collections Offset – We estimated that the potential collections and working capital offset associated with the USF program is probably between about $200,000 and $1.1 million.

- Potential Customer Service and Regulatory Offset – We did not estimate the offset for these activities. Review of other program evaluation studies suggests that these offsets are considerably less than the offset for collections.

- USF Credits – For 2005, the utilities reported furnishing $73.7 million in USF credits.

- Fresh Start Credits – For 2005, the utilities reported furnishing $21.7 million Fresh Start credits, with about $10.6 million in electric credits and $11.1 million in gas credits.

- Electric Uncollectible Offset - The electric utility uncollectibles are paid by the SBC. Any offset of electric uncollectibles as a result of the Fresh Start program represents a transfer within the SBC fund and does not have an impact on the electric utilities.

- Gas Uncollectible Offset – Because of the timing of the enrollment of customers in the Fresh Start program, it is particularly difficult to estimate what share of arrears would have become uncollectible. For the general population, it appears that as much as 50 percent of arrears become collectible. However, with the special circumstances related to low-income households it is possible that the collectible portion could be either higher or lower for low-income households.

We find that the incremental USF program costs appear to be of the same magnitude as the potential savings associated with collections as a result of the USF program. However, that relationship varies considerably among the individual utilities.

We find that the benefits associated with the USF credits appear to accrue mainly to the USF clients.

We find that it is possible that gas utilities have some offset in uncollectibles as a result of Fresh Start arrearage forgiveness, but we do not have the information needed to develop a precise estimate of that offset. From a review of gas collection statistics for 2003 and 2005, we find that actual net gas uncollectibles increase about 10 percent from 2003 to 2005. While there was some potential for a reduction in collectibles due to the USF program, there is no evidence that gas uncollectibles actually decreased.

4. Utility Actual Costs

We do not have detailed cost data for the utilities. However, we did track the changes in the actual collection actions taken between 2003 (prior to the USF program) and 2005. Our findings include:

- Disconnect Notices – Utilities experienced changes in the number of disconnect notices. However, there was no systematic direction to the change.

- Field Visits – Utilities experienced changes in the number of field notices. However, there was no systematic direction to the change.

- Service Terminations – All of the electric-only utilities experienced a decrease in service terminations between 2003 and 2005. Two of the three gas utilities experienced an increase in service terminations. Service terminations increased for PSE&G.

- DPAs – All of the electric-only utilities experienced an increase in the number of new DPAs, while all of the gas-only utilities and PSE&G experienced a decrease in the number of new DPAs.

- Write-Offs – All of the electric only utilities experienced a decrease in the amount of net write-offs. PSE&G and NJNG experience an increase in net write-offs. ETG had no change in write-offs. SJG had a significant reduction in net write-offs that was attributed to a significant change in collections procedures and accounting.

It is possible that the USF program was responsible for some of these changes. However, the sum total of changes is likely to have been a result of the implementation of the USF program, the change in the way that electric uncollectibles are treated, and the increase in natural gas prices.

IX. Agency Program Impacts

The seventh set of evaluation questions posed by the BPU relates to agency program impacts of the USF program. The BPU has asked:

- How does the program affect the ability of DHS to fulfill its responsibilities to low-income households?
- How does the program affect the ability of service provider agencies to serve their low income clients?

To answer these questions, we conducted administrative interviews with DHS, DCA, and a sample of the USF/HEA intake agencies.

A. Impact of USF on Energy Assistance Program Systems

As part of the USF implementation, the BPU decided that the USF program should be integrated with the HEA program. To achieve that end, the BPU signed a memorandum of understanding (MOU) on December 29, 2003. The MOU directs DHS to develop systems for implementing the program and to establish relationships with the participating utility companies, the Department of Community Affairs, and the Department of Health and Senior Services.

Prior to the initiation of the USF program, the HEA system had the following structure:

- Planning and Administration – The Division of Family Development (DFD) in the Department of Human Services (DHS) was responsible for developing the State LIHEAP Plan for submission to the federal government and for administering the program.
- Information Systems – The Office of Information Technology (OIT) operated a legacy system for the management of the HEA program. That system processed HEA applications, facilitated the electronic transfer of HEA benefits to electric and gas companies, facilitated the preparation of HEA benefit checks, and furnished information to the HEA intake agencies.
- Intake Administration – The Department of Community Affairs (DCA) was responsible for management and supervision of the local intake agencies.
- Intake Procedures – HEA intake was conducted in two ways. Households that applied for Food Stamps were screened for program eligibility. Households also could apply for HEA at local HEA intake agencies.

In general, the new HEA/USF procedures used the existing HEA program implementation procedures. During the first USF program year (October 2003 to September 2004), the following procedures had to be developed to implement USF.

- Lifeline System Information – OIT retrieved information from the Lifeline information system to allow Lifeline recipients to be screened for USF benefits.

- Utility Information Exchange – OIT and the utilities developed procedures for sharing information on the energy burden for Lifeline and HEA recipients so that USF benefits could be calculated.

In the second USF program year (October 2004 to September 2005), procedures were implemented to allow direct application for USF benefits at USF/HEA intake agencies. This change resulted in the following program modifications.

- USF/HEA Information System – A USF/HEA information system was developed. The system replaced the legacy HEA system and was accessible to local intake agencies.

- Program Intake – HEA intake agencies were asked to accept and process USF/HEA applications on a year-round basis.

- Outreach – A number of USF outreach systems were implemented. These included the USF hotline, as well as a number of mailings to USF clients.

As is to be expected, the modification of the information system had far-reaching effects on the partners in program administration (i.e., DFD, OIT, DCA, the utilities, and the intake agencies).

B. Impact of USF on DHS

The Division of Family Development (DFD), within the Department of Human Services (DHS), has the responsibility for administration of the federally-funded LIHEAP program.

As noted above, implementation of the USF program involved the development of new procedures and new systems. As discussed in other sections of this report, the implementation of systems did not always proceed smoothly and, in a number of cases, the new systems did not initially work as well as the existing system. Some examples of program implementation issues include:

- Identification of USF Households in Utility Records – It was challenging to link HEA and Lifeline recipients to utility accounts. Since the information systems did not have data fields that aligned, significant resources were required by OIT and the utilities to identify USF households.

- System Reports – The existing HEA system had develop a number of reports that facilitated communication between HEA intake agencies and clients. In particular,

reports allowed intake agencies to systematically identify applicants with incomplete applications and proactively address their problems.

? Information Resource – DFD established a USF hotline to help answer questions from USF program participants. However, difficulties in hiring staff for the hotline led to unanswered client calls.

All of these problems are common in a new program. However, it appears that the problems might have been exacerbated because the demands for the development of new procedures and new systems fell on existing DFD and OIT staff, rather than on newly hired staff who could devote their time and attention exclusively to USF issues. It was extremely valuable to have experienced staff from DFD and other agencies to guide the program implementation process. However, those staff already had full-time responsibilities and needed additional support if they were to complete the required tasks more smoothly.

There are two issues that appear to have represented the greatest barriers to the implementation of the new systems – the program administration budget and state hiring practices.

Budget Issues

The BPU/DHS MOU explicitly discusses reimbursement for administrative expenses. It sets a limit on administrative expense of 10 percent of the expected $30 million in USF expenditures. The MOU also allocates $500,000 for initial system development. The MOU also furnishes a mechanism whereby DHS can request more funding for program administration.

The actual funding for the USF program far exceeded the initial estimate of $30 million. It is estimated to be about $120 million at this time. Furthermore, the number of USF participants is significantly larger than was anticipated. It is common for assistance programs to spend about 10 percent of program funding on intake and administration. When new systems are being developed, administration costs might exceed that 10 percent target. However, actual funding for the USF program administration for the 2004-2005 fiscal year was just over $5 million; proposed funding for the 2005-2006 program is less than $6 million.

From the PA PUC 2004 Report on Universal Service Programs & Collection Performance, we find that the average cost per participant for electric CAP programs in Pennsylvania is about $75 per participant and that average cost for gas CAP programs in Pennsylvania is about $60 per participant. [Note: In Pennsylvania, the utility takes responsibility for all program administration costs.] Most of the Pennsylvania CAP program are mature and do not have any program implementation costs.

By comparison, a $5 million administrative budget for a New Jersey year-end USF caseload of 154,000 customers is about $33 per customer. [Note: In addition, we estimate that the

utilities have costs of about $20 per customer.] Current New Jersey expenditures are significantly less than those for similar programs in Pennsylvania.

We expect that the proposed administration budget is adequate to deliver benefits to a large number of USF-eligible households. However, it appears to be inadequate to resolve outstanding program administration and communication issues.

Hiring/Contracting

When a large new program is put in place, it is expected that new staff will need to be hired to implement the program. However, the State of New Jersey has a number of restrictions on hiring to address budget problems. These restrictions made it difficult, and continue to make it difficult, to hire new staff to complete program administration responsibilities.

To resolve the outstanding program issues, the program administrator will need to hire additional staff or will need to identify qualified contactors who can resolve program administration issues.

Assessment of Impacts

The USF program furnishes significant new benefits to many low-income households in New Jersey. All of the parties involved in the program implementation have worked hard to ensure that they system meets the needs of low-income households. However, because of the magnitude of the task, it appears that some low-income households might be worse off than prior to the implementation of the USF program because they have failed to complete LIHEAP applications and they have not received the assistance with program completion that they might have received in the past.

The implementation of the USF program affected the existing HEA program administration systems. As a result, we expect that some low-income households are not receiving any energy assistance benefits because they have been unsuccessful in completing the program application requirements. In the past, such households might have been identified by local intake agencies and had their issues resolved. However, the current systems do not yet facilitate all of the communication activities that might be appropriate.

We have no way to measure the new barriers to program participation that have resulted from the implementation of new USF/HEA system. However, resolution of outstanding problems certainly should be a priority for the program administrator. Establishing adequate program administration budgets are certainly one important prerequisite to achieving that end.

C. Impact of USF on HEA/USF Intake Agencies

The Department of Community Affairs contracts with local agencies for administration of HEA at the local level. During the first USF program year, there was no direct impact of

USF on the HEA intake agencies. During FY 2004, local intake agencies processed HEA applications in the same way that they had previously.

During the 2004-2005 HEA program year, HEA intake agencies were responsible for combined USF/HEA intake. This presented a number of challenges:

- Application – Agencies needed to be trained on the new application.
- Systems – Agencies needed to be trained on the new system. Some agencies needed different hardware and/or software to run the new system.
- Systems Problems – Agencies had to work with DCA, DFD, and OIT to identify and resolve problems in the new system.
- System Resources – Agencies lost access to some of the system resources that they had used in the past to communicate with HEA applicants.
- Duplicate Applications – Because clients were confused, intake agencies received a significant number of applications that duplicated existing applications.

In addition to these technical issues, intake agencies faced a number of managerial and financial issues. Agencies needed to hire and train new staff to implement the new procedures. However, agencies were uncertain about the level of funding that they would receive. Some agencies had the financial and managerial resources to deal with these issues and were relatively successful in implementing the new procedures. Other agencies had less flexibility and were unable to keep up with all of the USF processing that was required. As a result, there was a very large application backlog for some agencies.

For the 2005-2006 program year, these issues still have not been completely resolved. As of the end of January 2006, local agencies still did not have firm contracts and funding for the 2005-2006 program year.

It is clear that resolution of these issues needs to be a high priority for the BPU and the program administrator. Throughout this evaluation, we have found that procedural barriers represent a major problem for the USF program. USF intake agencies can furnish a direct link to USF clients. The program needs to give these agencies a clear mandate and the funding required to implement them. To do so would require the following:

- USF Funding – The USF funding for intake agencies should be in place at the beginning of the program year. [Note: Currently the program year begins on July 1. DFD has suggested that the program year should be changed to start on October 1.]
- USF Contracting – The contracts between DCA and the intake agencies should explicitly identify all agency responsibilities, including client outreach, client education, and client counseling.

- USF Management – USF intake agencies should be responsible for preparing a management and staffing plan for the USF program. It might be appropriate for DCA to develop a "model plan" that gives the agencies guidance on required program procedures.

- DCA Oversight – DCA should establish a systematic procedure for assessing the performance of USF intake agencies and should report to the program administrator on the achievements and/or deficiencies of intake agencies. USF funding of DCA should be adequate to support that activity.

- Coverage – DCA should be responsible for ensuring that the set of USF intake agencies adequately covers the eligible population. If needed, DCA should identify new intake agencies that better serve subgroups of the population.

The purpose of these changes is to ensure that local intake agencies are aware of all of their responsibilities, to ensure that they have the funding in place at the beginning of each program year to carry out their responsibilities, and to ensure that the BPU receives reports on the performance of agencies in meeting these requirements.

D. Remediation

We recommend implementation of the following changes in program administration to ensure that the responsible agencies are able to fulfill their responsibilities to their clients.

- Funding – The USF program administration budget should be raised to 10 percent of total program funding to ensure that adequate resources are available to address all program issues.

- Hiring and Contracting Policies and Procedures – BPU staff, the treasurer's office, DHS, OIT, DHSS, and DCA need to meet together to establish the staffing and contracting needs for each agency to fulfill its USF responsibilities. Subject to the availability of USF funds, individual program managers should be authorized to hire the staff required and to fund the contracts needed to fully implement the USF program.

- DHS and OIT Reporting – Once DHS and OIT have adequate resources to meet the current program operational requirement, DHS and OIT should devote appropriate resources to the development of reports to meet the BPU's information needs and to the development of resources for DCA and the intake agencies to facilitate communications with USF clients regarding program applications and benefit determination.

- DCA and Intake Agencies – Procedures should be established that ensure that local agencies have USF funding at the start of the program year, have a clear statement of program responsibilities, and have well-documented fiscal reporting responsibilities.

To facilitate this process, the BPU, DHS, and DCA need to work together to align the fiscal management practices for USF so that they meet the audit requirements of all of the organizations that have responsibilities for the USF program.

? Memorandum of Understanding – The USF program administration MOU needs to be updated to reflect the changes that have been made in the program and to document all of the agreements among the program implementation partners. The MOU should explicitly include interactions with DHSS regarding the linkage between the Lifeline Program and the USF/HEA program.

The evidence on program accessibility suggests that a significant number of eligible households are failing to receive benefits because they are unaware of the USF program and/or because they do not understand their status with respect to the program. These changes in program administration are required to resolve those program issues.

X. Program Linkages and Program Efficiency

The eighth set of evaluation questions posed by the BPU considers whether the USF program is effectively linked to other program and operated in the most efficient way possible. The BPU has asked:

? Is the program effectively linked to other energy program (including HEA, Lifeline, WAP, Comfort Partners, and NJ SHARES)? What improvements, if any, could be made in linking these programs?

? Is the program effectively linked to other federal, state, and local benefit programs? What improvements, if any, could be made in linking these programs?

? Is the current organization of the program the most efficient? How, if at all, could the organization of the program be made more efficient?

A. Linkage to Other Energy Programs

The USF program has the following linkages:

? HEA – The USF program is directly linked to the HEA program.

? Lifeline – The USF program was initially linked to the Lifeline Program. It currently is not linked to new Lifeline Program applications.

? NJ SHARES – The USF program is not currently linked to the NJ SHARES program.

The following remediation activities are appropriate.

Lifeline Recipients

In the program targeting section, we saw that if the USF program is not linked to the Lifeline program it will serve only a small part of the elderly population. From that perspective, further coordination may be appropriate. However, when Lifeline recipients were sent USF/HEA applications, only about 20 percent completed the applications and submitted them to receive benefits.

The BPU has two policy options for ensuring that elderly households receive USF benefits:

1. Automatic Screening – DHSS could change the Lifeline application so that it includes all of the information necessary for USF screening. Then, Lifeline recipients could be screened for USF eligibility.

2. Improved Outreach – As part of the enhanced USF communications effort, Lifeline households could be better informed about the availability of the USF program.

The BPU would choose option #1 if its goal is to ensure that all eligible households are enrolled in the USF program. The BPU would choose option #2 if its goal was to ensure that households were informed of the USF program benefits and to allow each household to choose whether or not to complete a USF application.

NJ SHARES

The NJ SHARES program serves households that are not eligible for HEA and USF. However, several program linkages might be appropriate.

? Referral – Linkages should be made between local USF offices and local NJ SHARES offices. Any client who applies for USF but is deemed ineligible should be referred to NJ SHARES. Any client who applies for NJ SHARES but is deemed ineligible should be referred to the USF intake agency.

? Intake Sites – NJ SHARES has over 80 intake agencies throughout the state. To the extent that DCA finds that certain clients are not being served by the existing set of USF intake agencies, they might consider establishing a contract with an NJ SHARES agency for program intake.

? Counseling – The NJ SHARES mission includes referral and counseling. If the USF agency in a particular area does not have the counseling skills to meet the needs of a USF applicant, they might refer the client to the NJ SHARES agency for counseling.

In some cases, the NJ SHARES agency is the USF agency. However, there are enough locations where this is not true and further coordination is appropriate.

B. Linkage to Usage Reduction Programs

Comfort Partners

Although a significant portion of utility customers served by the Comfort Partners program are USF beneficiaries, the linkage between the programs is not currently formalized by a Memorandum of Understanding (MOU) or mandated guidelines from the BPU instructing utilities to make referrals into the program. Program linkages currently occur when Comfort Partners program contractors request lists of potential customers from utilities. Utilities often use USF or Fresh Start status as criteria in generating these lists of potential customers.

Utility and contractor efforts to identify eligible utility customers and recruit USF clients into the Comfort Partners program have had good results. Criteria used by utility companies to target their outreach often include minimum consumption requirements, income thresholds, program regulations (such as having not previously been served by the Comfort

Partners program or having agreement from a customer's landlord), and *receipt of USF benefits*. In 2005, 43 percent of those receiving services from the Comfort Partners program were USF recipients.

While there is significant overlap in the clientele served by the Comfort Partners and USF programs and their goals, the current guidelines for both programs may impede complete synergy between the two programs. The Comfort Partners program currently requires that households have incomes at or below 175 percent of the Federal Poverty Guidelines[30], use the home as the primary residence, have significant electric use, and the customer must be the rate payer on record with the electric or gas utility. However, some USF customers may not meet the thresholds for "significant electric use," while some Comfort Partners program recipients may not have qualified for the USF program due to reasons such as their projected energy burden calculations.

Utility and contractor outreach has had success in administering Comfort Partners program services to a portion of the USF population. However, these efforts should be supported by official direction from the BPU. This will help the utilities standardize their referrals and capitalize on outreach opportunities to USF customers.

WAP

There are ongoing efforts to integrate WAP and Comfort Partners. To the extent that these programs are integrated, USF customers may be benefiting from the procedure developed by the utilities for Comfort Partners.

In addition, many of the LIHEAP intake agencies are also WAP agencies. From that perspective, USF participants are likely to be notified about WAP and to be enrolled. The USF/HEA application allows clients to simultaneously apply for WAP services. However, we are not aware of any additional formal linkage between WAP and the USF program.

C. Linkage to Public Assistance Programs

The USF program is already directly linked to the Food Stamp application system. In Section V, we discussed other potential program linkages. However, we also identified the potential problems with linking USF to such programs. At this point, we recommend that the USF program focus on other priorities, including improving the linkage between the USF program and the Food Stamp program, prior to linking USF with other public assistance programs.

[30] According to http://www.njcleanenergy.com/html/1residential/4_comfort_partners.html accessed on February 8, 2006, "eligibility for this program includes household incomes up to 200% of federal poverty guidelines for customers who enroll between November 1, 2005 and April 30, 2006."

D. Efficiency of Program Design

It is our assessment that the BPU made a good choice in integrating the USF program with the HEA program and contracting with DHS to administer the program. The USF program in New Jersey was implemented much more quickly than were ratepayer-assistance programs that we have evaluated in other states. Moreover, the systems that have been put in place to manage the program, including the online database, direct linkage to the electric and gas utilities, and local program intake, are potentially much more efficient than are systems than are currently in place in other states.

To make program operation more efficient, all of the plans for system improvements need to be fully implemented. To achieve that, USF program administrative funding needs to be sufficient to meet all of the program requirements. In the short run, that implies that administrative funding should be targeted to 10 percent of program costs and that the program administrator should consider contracting for services if adequate staff cannot be hired because of state hiring restrictions.

XI. Summary of Program Benefits and Costs

The final set of evaluation questions posed by the BPU considers overall benefits and costs of the USF program. The BPU has asked:

- ? What are the set of benefits, monetary and nonmonetary, that have been delivered by the USF program to program recipients and ratepayers? [Nonmonetary program benefits could include, by way of example but not limitation, clients' satisfaction with the program, decreased disconnections, or clients' ability to pay for other needs.]
- ? In what way could the program benefits be enhanced?
- ? What are the program costs for USF credits, arrearage forgiveness, and administration?
- ? In what ways could the programs be more cost-effective?

The information on program benefits furnished in this section of the report represents a summary of data furnished in other parts of the report. The information on program costs was obtained directly from quarterly reports submitted to the BPU by the utilities.

A. Summary of Program Benefits to USF Clients

The USF program has provided low-income households in New Jersey with important benefits.

Energy Affordability

The USF program significantly reduced the energy burden for over 170,000 USF program participants. On average, USF participants received $626 per year in USF credits. Those credits paid, on average, about 40 percent of USF participant utility bills.

Preprogram Arrearages

The USF program eliminated about 90 percent of preprogram arrears for USF customers. About one-third of USF program participants had preprogram arrears. On average, those arrears were about $600. Through the Fresh Start program, customers received average forgiveness of about $540. About 75 percent of Fresh Start customers had 100 percent of their preprogram arrearages forgiven.

Nonmonetary Benefits

The USF program also had some impact on the negative consequences of high energy bills. Compared to LIHEAP recipients in other Northeastern states, USF participants had a lower rate of utility shutoffs, were less likely to have an illness associated with the temperature of their home, were less likely to go without food for at least one day, and were less likely to

go without prescription drugs because of high energy bills. These positive results affected about 10 percent of USF program participants (i.e., the incidence of energy affordability impacts was about 10 percent lower for USF program participants on these data items).

B. Summary of Program Benefits to Agencies

The USF program has spent about $5 million per year on program administration. Those funds have been used to hire USF program staff at state agencies and local intake agencies that, in turn, have developed systems and furnished support to USF clients. The expenditure of these funds has enhanced the capacity of the agencies to serve low-income households in New Jersey. Specific benefits include:

- Year-Round Service – With funding from HEA, most local agencies were required to use temporary staff for the HEA intake season. With the expansion of the USF program to a year-round activity, agencies can deliver energy services to customers 12 months a year.

- Information Systems – USF funds were used to develop a new HEA/USF application processing system. This system has the potential to give state agencies better information on program operations and to give local intake agencies better information on clients.

- Client Communications – USF funds were used to furnish information to HEA/USF clients. Those communications can be a valuable source of information for low-income households.

Though the implementation of the USF program has been challenging for all organizations, the long-run potential benefits of the program significantly outweigh the short-term challenges associated with program start-up.

C. Summary of Program Benefits to Utilities

The USF program has the potential to offer benefits to the participating utility companies. There are potentially two types of benefits – improvements in customer satisfaction and reduction in certain utility costs.

Customer Satisfaction Benefits

A review of the 2004 Annual Report of the BPU Division of Customers Assistance demonstrates that collections related calls dominate complaints to the BPU. For most of the utilities, collections complaints accounted for over 50 percent of complaints to the BPU.

The USF and Fresh Start Programs offer the utility an opportunity to engage in a constructive relationship with low-income payment troubled customers, rather than an adversarial relationship. That is not to say that utilities will no longer have to collect from

low-income customers. However, the USF and Fresh Start programs offer collections staff options that were not available prior to 2003.

Financial Benefits

In the long run, the USF and Fresh Start programs appear to have the potential to significantly reduce payment problems for low-income customers and thereby reduce the need for low-income collections costs. About 25 percent of the USF electric and gas customers, and almost 50 percent of PSE&G customers had significant arrears at the start of the USF program. Other program evaluations have shown that the USF program has the potential to eliminate payment problems for at least 75 percent of payment-troubled participants, and perhaps as many as 90 percent of payment-troubled participants. [Note: In the short run, the NJ USF program did not achieve that level of success. However, with program modifications, those result are attainable.]

The following statistics are meant to be illustrative. It appears that about one-third of USF program participants are payment-troubled when the enter the USF program. If the long-run caseload for the USF program were 150,000 customers, it would mean that the program would serve about 50,000 payment troubled customers per year. If the program successfully eliminated payment problems for 75 percent of the payment-troubled participants, it would resolve payment problems for about 37,500 low-income customers. Other evaluation studies have shown that average collections costs for payment-troubled customers are between $25 and $100 per payment-troubled customers. Using those statistics, a successful USF program could reduce collection costs by $1 million to $4 million per year. [Note: There also is a utility cost of running the USF that offsets the potential collection cost reductions.]

In addition to collection cost savings, there is the potential for reductions in write-offs for gas utilities. [Note: Any reductions in write-offs for electric utilities accrue to the SBC fund, not to the electric utility.] During the 2005 program year, gas utilities granted USF customers about $11.1 million in Fresh Start forgiveness. It is possible that some share of that forgiveness would have resulted in gas utility write-offs if they were not granted through the Fresh Start program. [Note: Comparing 2003 to 2005, gas utility write-offs actually increased by about 10 percent during the period of USF program implementation.]

D. Potential Enhancement of USF Program Benefits

It appears the most significant barrier to the enhancement of USF program benefits is that USF participants are not aware of the program, do not understand its benefits, and are not taking advantage of all of the opportunities offered to them. Throughout this report, we have identified program changes that could potentially enhance the efficiency and effectiveness of program operations, and thereby increase the overall program benefits to USF program participants.

Program Enrollment Enhancements

One way to improve the USF program is to eliminate barriers to program enrollment. We have identified three ways that the program systems could be modified to increase program enrollment success rates for clients that have a demonstrated need for and interest in assistance.

? System Coordination – By better coordinating the three potential entry points for the USF program (i.e., USF/HEA intake, Food Stamp applications, and Lifeline applications) the program could achieve a higher success rate in screening applicants for USF program benefits.

? System Tools – By improving the system tools that DFD, DCA, and the local intake agencies use to identify clients that have incomplete applications, the program could achieve a higher success rate. System improvements should be aimed at ensuring that applicants complete all of the requirements in the applications process.

? Intake Agency Responsibilities/Funding/Oversight – By establishing a comprehensive statement of intake agency client outreach and assistance responsibilities, furnishing funding that would allow the agencies to fulfill those responsibilities, and conducting the oversight on agency performance, the program could better serve potential USF clients with the benefits that they need.

Client Education

Many USF clients do not have the information that they need to take advantage of all the opportunities presented by USF. Attempts have been made to communicate with clients. However, our research suggests that those attempts have not been successful for many USF clients. We recommend a series of initiatives that would begin to resolve those problems.

? Client Education – We recommend that the program administrator initiate a process to test alternative approaches to the client communication and education to determine how best to help clients understand how the USF program works and what they can do to maximize their benefits under the program. Based on the evaluation findings, it is clear that a special effort is needed to communicate with Fresh Start clients.

? Information Resources – As part of the client communication process, the information resources must be adequate to furnish clients timely and useful information. The USF Hotline must be fully staffed and the USF database must give Hotline and intake agency staff clear information on an individual client's USF status.

Two pilot programs were conducted during 2004 and 2005 - JCP&L/Dollar Energy Pilot and the PSE&G/NJSHARES Pilot. In the JCP&L pilot, Dollar Energy Customer Service Representatives (CSRs) contacted JCP&L Fresh Start customers to inform them of their USF and Fresh Start Responsibilities. The pilot evaluation demonstrated that the program was successful in increasing payment compliance and Fresh Start forgiveness of JCP&L customers. In the PSE&G pilot, NJ SHARES held client education workshops with PSE&G

Fresh Start customers to give them information on the USF and Fresh Start programs, and to furnish budget counseling and referrals. The PSE&G pilot developed excellent materials that clearly communicated with clients. However, the model was not cost-effective because of the expenses associated with recruiting customers to the workshops. The BPU should consider these two models in developing client education materials.

Client Affordability

It appears from our research that clients still perceive that their utility bills are unaffordable. In part, this may result from the benefit distribution system that the USF program uses. Clients receive large HEA and/or Lifeline grants that eliminate the need for payment for a certain period of time. They receive equal monthly credits from USF that pay a large share of their bill in some months, but only a small portion of their bill in other months. We recommend that the program test alternative approaches to benefit distribution. For example, a customer could be put on an equal monthly payment plan by the utility, and could receive a levelized USF benefit from the SBC **and** a levelized HEA benefit from the state. In that way, a client would be asked to pay the same amount each month and could better understand the true cost of utilities and could manage his/her budget to meet that monthly requirement.

It is also clear the some clients simply have inadequate resources to meet all of their financial commitments. We recommend that the USF program add a specific component that identifies those clients for whom broader resource issues present the greatest challenge and that those clients be referred to appropriate services that can help meet those needs.

Client Energy Usage

Our analysis demonstrated that high-usage clients were more likely to have preprogram arrears and were less likely to maintain current bill payments (i.e., had a lower bill coverage rate than lower-usage clients). We recommend that the BPU formalize the guidelines established by the utility companies for developing recruitment lists for the Comfort Partners program. We further recommend that a similar set of guidelines be developed for the creation of recruitment lists for WAP.

It also may be important to develop incentives for high-usage USF households to participate in Comfort Partners and WAP. One example of an incentive might be that households that have reached the USF maximum benefit of $150, might be granted additional USF benefits if they agree to participate in a usage reduction program. In the long run, it is expected that participation in the program would reduce the client's benefit below the $150 level, thereby increasing the client's long run ability to manage energy bills.

Nonparticipant Outreach

There are two types of nonparticipants – those that apply for the USF program but are unsuccessful and those that are unaware of the USF program and do not apply. In our discussion of program enrollment barriers, we made recommendations for resolving the

issues of unsuccessful applicants. However, it is important for the program to reach out to low-income households that are currently unaware of the USF program.

In this evaluation, we determined that there are a large number of eligible households that are not currently participating in the USF program. Many of those nonparticipants are among the households that should be targeted by the program; the highest burden and lowest income households. However, this evaluation did not collect information from nonparticipants to assess how they might best be reached. The BPU should make outreach to nonparticipants a high priority and ensure that funding is available to develop procedures to better meet the needs of these households.

As part of the nonparticipant outreach process, DCA needs to examine the geographic coverage of the existing set of intake agencies. Many low-income households do not have transportation and may have a difficult time traveling to the intake agency in their county. DCA should assess whether additional coverage is needed in some counties and should develop a procedure for soliciting agencies to cover special population groups and/or geographic areas that are underrepresented.

E. USF Program Costs

Utility Costs

We furnish information on the costs for that program year as identified in the utility quarterly filings to the BPU. Four cost components are included in the analysis.

- USF Credits – The largest cost for the USF program are the USF credits that are calculated by OIT and credited to customer accounts by the utility companies.

- Fresh Start Credits – The utilities grant Fresh Start arrearage forgiveness credits to customers when they meet payment requirements for current bills.

- Interest on Under-Recovery – Initial projections for USF costs underestimated the total cost of the USF program. As a result, utilities carried a balance of USF expenditures. The utilities are paid interest on those balances.

- Incremental Administrative Expenses – The utilities report their estimated incremental administrative expenses. The utilities have not yet been paid for those expenses. The BPU plans to review the total impact of the USF program on utility costs and set policy regarding recovery of administrative expenses.

The total reported USF costs and client populations by utility are listed in Table 11-1. On average, over 123,000 accounts received USF benefits during the 2004-2005 program year. A total of $74 million in USF credits were issued. The total utility costs for the USF program were about $96 million. There is some uncertainty about the treatment of incremental USF administrative costs. However, those costs represent only about 1 percent of total USF costs.

Table 11-1
USF Costs by Utility
2004-2005 Program Year

Utility	USF Caseload	USF Credits ($000)	Fresh Start Credits ($000)	Interest Charges ($000)	Deferred Administrative Expenses* ($000)	Total ($000)
NJNG	9,183	$4,965	$1,195	$65	$29	$6,254
SJG	10,150	$5,968	$743	$66	$12	$6,789
ETG	5,414	$2,795	$772	$38	$28	$3,633
ACE	12,070	$7,984	$596	$14	$4	$8,598
JCP&L	18,537	$9,571	$896	$23	$77	$10,567
RE	406	$185	$15	<$1	$69	$270
PSE&G Gas	67,415	$18,181	$9,217	$135	$283	$27,816
PSE&G Electric		$24,083	$8,245	$154	$430	$32,912
TOTAL	123,175	$73,732	$21,679	$496	$932	$96,839

*Most of the data for this table was obtained from Quarterly Financial Reported submitted by the utilities to the BPU. However, data on deferred administrative expenses for ACE were obtained from the Annual Report submitted to the BPU (BPU Docket No. EX00020091 – 06/22/2005); $3,857 in postage/mailing charges are reported on page 12 of Attachment A. These charges were verified with an ACE employee. Deferred administrative expenses for PSE&G and JCP&L were comprised of charges footnoted on page 12 of Attachment A ($69,694 for JCP&L, $380,365 for PSE&G-Electric, and $233,128 for PSE&G-Gas) and those administrative costs obtained from the "Recovery Calculation" tab of each utilities' Quarter 2-2005 Quarterly Financial Report. There is currently some question as to whether the administrative charges footnoted in the Annual Report represents expenses incurred from July 2004 to June 2005. We, therefore, present the information in the deferred administrative expenses column as an *estimate* of these charges during the 2004-2005 program year. Additionally, APPRISE staff corresponded with staff at SJG to obtain the December 2004 USF Credit amount, as well as the July 2004 through December 2004 Fresh Start Forgiveness amounts.

There are a number of reasons why the costs for the 2004-2005 program year may be different from the longer run costs for the program. They include:

? Program Participation – Over time, participation in low-income programs tend to increase. To the extent that the USF program participation rate increases, the longer-term costs for USF credits could be higher than the costs for the 2004-2005 program year.

? Energy Costs – USF program benefits are designed to reduce the net energy burden for low-income customers to about 6 percent of income for electric and gas service. If electric and/or gas costs rise, the expected USF benefits would also rise.

? HEA/Lifeline Funding – USF program benefits supplement the existing energy assistance benefits. If HEA and/or Lifeline funding increased and benefits were

raised, USF costs would fall. If HEA and/or Lifeline funding decreased and benefits were reduced, USF costs would rise.

? Fresh Start – The Fresh Start program was designed to eliminate preprogram arrears for USF customers in the first 12 months of the program. If the program is successful, Fresh Start credits may decline in later program years.

? Interest Costs – The primary source of interest charges was that the program was under funded in the first program year (2003-2004). In future years, if funding levels match program costs, interest costs will be reduced.

? Administrative Costs – There is significant uncertainty regarding the final treatment of program administrative costs. These costs could be different in future program years.

Program Administration Costs

The total program administration costs for the 2004-2005 program year is estimated to be about $5 million. The preliminary proposed program administration budget for the 2005-2006 program year is about $6 million. We have recommended that the program administration budget be set at 10 percent of the total USF budget. That would have been about $10 million for the 2004-2005 program year.

F. Potential Improvements in USF Program Cost-Effectiveness

In the 2004-2005 program year, direct customer benefits accounted for about 94 percent of the program costs. Moreover, all of the evidence that we reviewed suggest that the program administration was conducted efficiently. We do not believe that the program cost-effectiveness can be increased by cutting program expenditures. However, as discussed earlier in this section of the report, we do find evidence the program can have a greater impact on USF clients if certain programmatic changes are made. Therefore, we suggest that the best way to improve cost-effectiveness is to enhance the impacts that the program has on USF clients.

Appendix